

OFFICIAL STATEMENT DATED FEBRUARY 26, 2014

Rating: See "Rating" herein.
 Standard and Poor's Rating Group: AAA

New Issue

In the opinion of Edwards Wildman Palmer LLP, Bond Counsel, based upon an analysis of existing law and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under the Internal Revenue Code of 1986 (the "Code"). Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Under existing law, interest on the Bonds is exempt from Massachusetts personal income taxes, and the Bonds are exempt from Massachusetts personal property taxes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. The Bonds will not be designated as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Code. See "Tax Exemption" herein.

TOWN OF ANDOVER, MASSACHUSETTS
\$27,791,000 GENERAL OBLIGATION MUNICIPAL PURPOSE LOAN OF 2014 BONDS

DATED
 Date of Delivery

DUE
 March 1
 (as shown below)

The Bonds are issuable only in fully registered form, registered in the name of Cede & Co., as Bondowner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds. Purchases of the Bonds will be made in book-entry form, in the denomination of \$5,000 or any integral multiple thereof, with the exception of one \$1,000 denomination maturing in 2015. See ("THE BONDS - Book-Entry Transfer System" herein.)

Principal of the Bonds will be paid on March 1 of the years in which the Bonds mature. Interest on the Bonds will be payable March 1 and September 1, commencing September 1, 2014. Principal and semiannual interest on the Bonds will be paid by U.S. Bank National Association, Boston, Massachusetts, as Paying Agent. So long as DTC or its nominee, Cede & Co., is the Bondowner, such payments will be made directly to such Bondowner. Disbursement of such payments to the DTC Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of the DTC Participants and Indirect Participants, as more fully described herein.

The Bonds will be subject to redemption prior to their stated maturity dates as detailed herein.

An opinion of Bond Counsel will be delivered with the Bonds to the effect that the Bonds are valid general obligations of the Town of Andover, Massachusetts, and that the principal of and interest on the Bonds are payable from taxes that may be levied upon all taxable property within the Town without limitation as to rate or amount except as provided under General Laws Chapter 44, Section 20, with respect to that portion of the principal and interest payments that the Town has voted to exempt from the limit imposed by Chapter 59, Section 21C of the General Laws, and subject to the limit imposed by Chapter 59, Section 21C of the General Laws with respect to that portion of the principal and interest payments that the Town has not voted to exempt from that limit.

MATURITIES, AMOUNTS, RATES, PRICES OR YIELDS AND CUSIPS

Due March 1	Principal Amount	Rate	Yield	Cusip 034285	Due March 1	Principal Amount	Rate	Yield	Cusip 034285
2015	\$ 1,471,000	5.00 %	0.14 %	5A0	2025	\$ 1,380,000	5.00 %	2.70 %	5L6
2016	1,465,000	5.00	0.31	5B8	2026	1,375,000	3.00	2.88	5M4
2017	1,460,000	5.00	0.50	5C6	2027	1,375,000	3.00	3.05	5N2
2018	1,460,000	5.00	0.80	5D4	2028	1,375,000	3.00	3.20	5P7
2019	1,460,000	5.00	1.09	5E2	2029	1,375,000	3.125	3.30	5Q5
2020	1,455,000	5.00	1.50	5F9	2030	1,270,000	3.25	3.40	5R3
2021	1,455,000	5.00	1.85	5G7	2031	1,270,000	3.25	3.48	5S1
2022	1,445,000	5.00	2.20	5H5	2032	1,270,000	3.50	3.55	5T9
2023	1,445,000	5.00	2.40	5J1	2033	1,270,000	4.00	3.58	5U6
2024	1,445,000	5.00	2.53	5K8	2034	1,270,000	4.00	3.60	5V4

The Bonds are offered subject to the final approving opinion of Edwards Wildman Palmer LLP, Bond Counsel, as aforesaid, and to certain other conditions referred to herein and in the Notice of Sale (see "Opinion of Bond Counsel.") First Southwest Company has acted as Financial Advisor to the Town of Andover, Massachusetts, with respect to the Bonds. The Bonds in definitive form will be delivered to DTC, or its custodial agent, on or about March 6, 2014, against payment to the Town in Federal Reserve funds.

FTN FINANCIAL CAPITAL MARKETS

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The information and expressions of opinion in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale of the Bonds shall, under any circumstances, create any implication that there has been no material change in the affairs of the Town since the date of this Official Statement.

SUMMARY STATEMENT

The information set forth below is qualified in its entirety by the information and financial statements appearing elsewhere in the Official Statement.

Date of Sale:	Wednesday, February 26, 2014, 12:00 Noon (E.T).
Location of Sale:	First Southwest Company, 54 Canal Street, 3rd Floor, Boston, Massachusetts 02114.
Issuer:	Town of Andover, Massachusetts.
Issue:	\$27,791,000 General Obligation Municipal Purpose Loan of 2014 Bonds, see "THE BONDS - Book-Entry Transfer System" herein.
Official Statement Dated:	February 26, 2014.
Dated Date of the Bonds:	Date of Delivery.
Principal Due:	Serially on March 1, 2015 through March 1, 2034, as set forth herein.
Purpose and Authority:	Bond proceeds will finance various municipal projects as authorized by the Town under provisions of Chapter 44, Sections 7 & 8 and Chapter 70B of the Massachusetts General Laws as detailed herein.
Redemption:	The Bonds will be subject to redemption prior to their stated maturity dates as detailed herein.
Security:	The Bonds are valid general obligations of the Town of Andover, and, to the extent not paid from other sources, the Bonds are payable from taxes which may be levied upon all taxable property within the Town without limitation as to rate or amount except as provided under Chapter 44, Section 20 of the General Laws with respect to that portion of the principal and interest payments that the Town has voted to exempt from the limit imposed by Chapter 59, Section 21C of the General Laws, and subject to the limit imposed by Chapter 59, Section 21C of the General Laws with respect to that portion of the principal and interest payments that the Town has not voted to exempt from that limit.
Credit Rating:	Standard & Poor's Ratings Group has applied a rating of AAA to the Bonds.
Bond Insurance:	The Town has not contracted for the issuance of any policy of municipal bond insurance or any other credit enhancement facility.
Basis of Award:	Lowest True Interest Cost (TIC), as of the dated date. BIDS MUST INCLUDE A PREMIUM OF AT LEAST \$115,000.
Tax Exemption:	Refer to "THE BONDS - Tax Exemption" herein and Appendix B, "Proposed Form of Legal Opinion of Bond Counsel".
Continuing Disclosure:	Refer to "THE BONDS - Continuing Disclosure" herein and Appendix C, "Proposed Form of Continuing Disclosure Certificate".
Bank Qualification:	The Bonds WILL NOT BE designated by the Town as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended.
Paying Agent:	U.S. Bank National Association, Boston, Massachusetts
Legal Opinion:	Edwards Wildman Palmer LLP, Boston, Massachusetts.
Financial Advisor:	First Southwest Company, Boston, Massachusetts. See "THE BONDS – Opinion of Bond Counsel".
Delivery and Payment:	It is expected that delivery of the Bonds in book-entry only form will be made to the Depository Trust Company, or to its custodial agent, on or about March 6, 2014, against payment in Federal Funds.
Additional Information:	Questions concerning the Official Statement should be addressed to: David J. Reilly, Treasurer, Town of Andover, Massachusetts (telephone: 978-623-8250) or Peter Frazier, Senior Vice President, First Southwest Company, Boston, Massachusetts (telephone: 617-619-4409).

NOTICE OF SALE

TOWN OF ANDOVER, MASSACHUSETTS

\$29,074,000* GENERAL OBLIGATION MUNICIPAL PURPOSE LOAN OF 2014 BONDS

The Town of Andover, Massachusetts (the "Town") will receive sealed and electronic (as described herein) proposals until 12:00 Noon, Eastern Time, Wednesday, February 26, 2014, for the purchase of the following described General Obligation Municipal Purpose Loan of 2014 Bonds of the Town (the "Bonds"):

\$29,074,000* General Obligation Municipal Purpose Loan of 2014 Bonds payable March 1 of the years and in the amounts as follows:

<u>Due March 1</u>	<u>Principal Amount*</u>	<u>Due March 1</u>		<u>Principal Amount*</u>
2015	\$ 1,534,000	2025	**	1,445,000
2016	1,525,000	2026	**	1,445,000
2017	1,520,000	2027	**	1,445,000
2018	1,520,000	2028	**	1,445,000
2019	1,520,000	2029	**	1,440,000
2020	1,515,000	2030	**	1,335,000
2021	1,515,000	2031	**	1,335,000
2022	1,510,000	2032	**	1,335,000
2023	1,510,000	2033	**	1,335,000
2024	1,510,000	2034	**	1,335,000

*Preliminary, subject to change.

**Callable maturities. May be combined into one or two term bonds as set forth herein.

The Bonds will be dated as of their date of delivery. Principal of the Bonds will be payable on March 1 of the years in which the Bonds mature. Interest will be payable on September 1, 2014 and semi-annually thereafter on March 1 and September 1.

The Bonds will be issued by means of a book-entry system with no physical distribution of Bond certificates made to the public. One certificate for each maturity of the Bonds will be issued to The Depository Trust Company, New York, New York ("DTC"), and immobilized in its custody. Ownership of the Bonds in principal amounts of \$5,000 or integral multiples thereof, with the exception of four \$1,000 denominations maturing in 2015, will be evidenced by a book-entry system with transfers of ownership effected on the records of DTC and its Participants pursuant to rules and procedures established by DTC and its Participants. The winning bidder, as a condition to delivery of the Bonds, shall be required to deposit the Bonds with DTC, registered in the name of Cede & Co. Interest and principal on the Bonds will be payable to DTC or its Nominee as Registered Owner of the Bonds. Transfer of principal and interest payments to Participants of DTC will be the responsibility of DTC. Transfer of principal and interest payments to Beneficial Owners will be the responsibility of such Participants and other Nominees of Beneficial Owners. The Town will not be responsible or liable for maintaining, supervising or reviewing the records maintained by DTC, its Participants or persons acting through such Participants.

Redemption Provisions

Bonds maturing on or prior to March 1, 2024 shall not be subject to redemption prior to their stated maturity dates. Bonds maturing on or after March 1, 2025 shall be subject to redemption prior to maturity, at the option of the Town, on or after March 1, 2024, either in whole or in part at any time, and if in part, by lot within a maturity, at the par amount of the Bonds to be redeemed, plus accrued interest to the date set for redemption.

For Bonds maturing on and after March 1, 2025, bidders may specify that all of the principal amount of such Bonds in any two or more consecutive years may, in lieu of maturing in each such year, be combined to comprise one, two or three Term Bonds, and shall be subject to mandatory redemption or mature at par, as described above, in each of the years and in the principal amounts specified in the foregoing maturity schedule. Each mandatory redemption shall be allocated to the payment of the Term Bond maturing in the nearest subsequent year. Bidders may specify no more than two Term Bonds.

Term Bonds, if any, shall be subject to mandatory redemption on March 15 of the year or years immediately prior to the stated maturity of such Term Bonds (the particular Bonds of such maturity to be redeemed to be selected by lot), as indicated in the foregoing maturity schedule at the principal amount thereof plus accrued interest to the redemption date, without premium.

Bidders shall state the rate or rates of interest per annum which the Bonds are to bear in a multiple of 1/20 or 1/8 of one percent, but shall not state (a) more than one interest rate for any Bonds having a like maturity or (b) any interest rate which exceeds the interest rate stated for any other Bonds by more than 3 percent. No bid of less than par and accrued interest to date of delivery, **plus a premium of at least \$115,000**, will be considered.

As between proposals which comply with this Notice of Sale, the award will be to the bidder who offers to purchase all the Bonds at the lowest net effective interest rate to the Town. Such interest rate shall be determined on a true interest cost (TIC) basis, which shall mean that rate which, as of the delivery date of the Bonds, discounts semiannually all future payments on account of principal and interest to the price bid. In the event there is more than one proposal specifying the lowest such rate, the Bonds will be awarded to the bidder whose proposal is selected by the Town Treasurer by lot among all such proposals.

The Town reserves the right to change the aggregate principal amount of the Bonds and the maturity schedule after the determination of the winning bid by increasing or decreasing the aggregate principal amount and the principal amount of each maturity by such amounts as may be desirable to produce sufficient funds for the debt excluded purposes for which a portion of the Bonds are being issued after taking into account the actual premium received by the Town. THE SUCCESSFUL BIDDER MAY NOT WITHDRAW ITS BID OR CHANGE THE INTEREST RATES BID OR THE INITIAL REOFFERING PRICES AS A RESULT OF ANY CHANGES MADE TO THE ANNUAL PRINCIPAL AMOUNTS WITHIN THIS LIMIT. The dollar amount bid for the Bonds by the winning bidder will be adjusted, if applicable, to reflect changes in the dollar amount of the amortization schedule. Any price that is adjusted will reflect changes in the dollar amount of the underwriter's discount and original issue premium, if any, but will not change the per bond underwriter's discount (net of insurance premium, if any) provided in such bid. Nor will it change the interest rate specified for each maturity. Any such adjustments will be communicated to the winning bidder by 5 P.M. on the day of the sale.

Bids must be submitted either:

- (a) In a sealed envelope marked "Proposal for Bonds" and addressed to David J. Reilly, Treasurer, Town of Andover, Massachusetts c/o First Southwest Company, 54 Canal Street, 3rd Floor, Boston, Massachusetts 02114. Proposals by telegram delivered as specified above will be accepted. Signed blank bid forms may be faxed to (617) 619-4411 prior to submitting bids, and actual bids may be telephoned to First Southwest Company, telephone (617) 619-4400, at least one-half hour prior to the 12:00 Noon sale and after receipt of the faxed bid form by First Southwest Company.
- (b) Electronically via Parity in accordance with this Notice of Sale. To the extent any instructions or directions set forth in Parity conflict with this Notice of Sale, the terms of this Notice of Sale shall control. For further information about Parity, potential bidders may contact the Financial Advisor to the Town or I-deal at 40 West 23rd Street, 5th Floor, New York, NY 10010 (212) 404-8102. An electronic bid made in accordance with this Notice of Sale shall be deemed an offer to purchase the Bonds in accordance with the terms provided in this Notice of Sale and shall be binding upon the bidder as if made by a signed and sealed written bid delivered to the Town.

The award of the Bonds to the winning bidder will not be effective until the bid has been approved by the Treasurer and Board of Selectmen.

The right is reserved to reject all bids and to reject any bid not complying with this Notice of Sale and, so far as permitted by law, to waive any irregularity with respect to any proposal.

The Town of Andover has not contracted for the issuance of any policy of municipal bond insurance for the Bonds. If the Bonds qualify for issuance of any such policy or commitment therefor, any purchase of such insurance or commitment shall be at the sole option and expense of the bidder. Proposals shall not be conditioned upon the issuance of any such policy or commitment. Any failure of the Bonds to be so insured or of any such policy or commitment to be issued shall not in any way relieve the purchaser of its contractual obligations arising from the acceptance of its proposal for the purchase of the Bonds. Should the bidder purchase municipal bond insurance, all expenses associated with such policy or commitment will be borne by the bidder, except for the fee paid to Standard and Poor's Ratings Group for a rating on the Bonds. Any such fee paid to Standard and Poor's Ratings Group would be borne by the Town.

It shall be a condition to the obligation of the successful bidder to accept delivery of and pay for the Bonds that he/she shall be furnished, without cost, with (a) the approving opinion of the firm of Edwards Wildman Palmer LLP, Boston, Massachusetts, substantially in the form appearing as Appendix B of the Preliminary Official Statement dated February 20, 2014 (see "THE BONDS – Opinion of Bond Counsel"), (b) a certificate in the form satisfactory to Bond Counsel dated as of the date of delivery of the Bonds and receipt of payment therefor to the effect that there is no litigation pending or, to the knowledge of the signers thereof, threatened which affects the validity of the Bonds or the power of the Town to levy and collect taxes to pay them, (c) a certificate of the Town Treasurer to the effect that, to the best of his knowledge and belief, as of the date of sale the Preliminary Official Statement did not, and as of the date of the delivery of the Bonds, the Final Official Statement does not, contain any untrue statement of a material fact and does not omit to state a material fact necessary to make the statements made therein, in the light of the circumstances under which they were made, not misleading, and (d) a Continuing Disclosure Certificate in the form appearing as Appendix C of the Preliminary Official Statement.

In order to assist bidders in complying with Rule 15c2-12 (b)(5) promulgated by the Securities and Exchange Commission, the Town will undertake to provide annual reports and notices of certain significant events. A description of this undertaking is set forth in the Preliminary Official Statement.

The Bonds will not be designated as "qualified tax-exempt obligations" for the purpose of Section 265(b)(3) of the Code.

Additional information concerning the Town of Andover and the Bonds is contained in the Preliminary Official Statement dated February 20, 2014, to which prospective bidders are directed. The Preliminary Official Statement is provided for informational purposes only and is not a part of this Notice of Sale. Said Preliminary Official Statement is deemed final by the Town except for the omission of the reoffering price(s), interest rate(s), the identity of the underwriter(s), and any other pertinent terms of the Bonds depending on such matters, but is subject to change without notice to completion or amendment in a Final Official Statement. Copies of the Preliminary Official Statement may be obtained from First Southwest Company, 54 Canal Street, Boston, Massachusetts 02114 (Telephone: 617-619-4409). Within seven (7) business days following the award of the Bonds in accordance herewith, 25 copies of the Final Official Statement will be available from the First Southwest Company to the successful bidder for use in reoffering the Bonds. Upon request, additional copies will be provided at the expense of the requester.

On or prior to the date of delivery of the Bonds, the successful bidder shall furnish to the Town a certificate acceptable to Bond Counsel generally to the effect that (i) as of February 26, 2014 (the "Sale Date"), the purchaser had offered or reasonably expected to offer all of the Bonds to the general public (excluding bond houses, brokers, or similar persons acting in the capacity of underwriters or wholesalers) in a bona fide public offering at the prices set forth in such certificate, plus accrued interest, if any, (ii) such prices represent fair market prices of the Bonds as of the Sale Date, and (iii) as of the date of such certificate, all of the Bonds have been offered to the general public in a bona fide offering at the prices set forth in such certificate, and at least 10% of each maturity of the Bonds actually has been sold to the general public at such prices. To the extent the certifications described in the preceding sentence are not factually accurate with respect to the reoffering of the Bonds, Bond Counsel should be consulted by the bidder as to alternative certifications that will be suitable to establish the "issue price" of the Bonds for federal tax law purposes. If a municipal bond insurance policy or similar credit enhancement is obtained with respect to the Bonds by the successful bidder, such bidder will also be required to certify as to the net present value savings on the Bonds resulting from payment of insurance premiums or other credit enhancement fees.

CUSIP identification numbers will be printed on the Bonds at the option of the purchaser, but neither the failure to print such numbers on any Bond, nor any error with respect thereto, shall constitute a cause for a failure or refusal by the purchaser thereof to accept delivery and pay for the Bonds. All expenses in relation to the printing of CUSIP numbers on said Bonds shall be paid for by the issuer. The Town assumes no responsibility for any CUSIP Service Bureau of other charge that may be imposed for the assignment of such numbers.

The Bonds in definitive form will be delivered to The Depository Trust Company, or its custodial agent, on or about March 6, 2014 for settlement in Federal Reserve Funds.

TOWN OF ANDOVER, MASSACHUSETTS
/s/ David Reilly, Treasurer

February 20, 2014

**OFFICIAL STATEMENT
TOWN OF ANDOVER, MASSACHUSETTS
\$27,791,000 GENERAL OBLIGATION MUNICIPAL PURPOSE LOAN OF 2014 BONDS**

This Official Statement is provided for the purpose of presenting certain information relating to the Town of Andover, Massachusetts (the "Town") in connection with the sale of \$27,791,000 aggregate principal amount of its General Obligation Municipal Purpose Loan of 2014 Bonds (the "Bonds"). The information contained herein has been furnished by the Town, except information attributed to another governmental agency or official as the source.

THE BONDS

Description of the Bonds

The Bonds will be dated as of their date of delivery and will bear interest payable semiannually on March 1 and September 1, commencing September 1, 2014. The Bonds shall mature on March 1 of the years and in the principal amounts as set forth on the first page of this Official Statement.

The Bonds are issuable only as fully registered Bonds without coupons, and, when issued, will be registered in the name of Cede & Co., as Bondowner and nominee for the Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds. Purchases of the Bonds will be made in book-entry form, in the denomination of \$5,000 or any integral multiple thereof, with the exception of one \$1,000 denomination maturing in 2015. Purchasers will not receive certificates representing their interests in Bonds purchased. So long as Cede & Co. is the Bondowner, as nominee of DTC, references herein to the Bondowners or registered owners shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners (as defined herein) of the Bonds. (See "Book-Entry Transfer System" herein.)

Principal and semiannual interest on the Bonds will be paid by U.S. Bank National Association, Boston, Massachusetts as Paying Agent. So long as DTC or its nominee, Cede & Co., is the Bondowner, such payments will be made directly to DTC. Disbursement of such payments to the DTC Participants is the responsibility of DTC and disbursements of such payments to the Beneficial Owners is the responsibility of the DTC Participants and the Indirect Participants, as more fully described herein.

Redemption Provisions

Optional Redemption

Bonds maturing on or prior to March 1, 2024 shall not be subject to redemption prior to their stated maturity dates. Bonds maturing on or after March 1, 2025 shall be subject to redemption prior to maturity, at the option of the Town, on or after March 1, 2024, either in whole or in part at any time, and if in part, by lot within a maturity, at the par amount of the Bonds to be redeemed, plus accrued interest to the date set for redemption.

Notice of Redemption

Notice of any redemption of Bonds, prior to their dates of maturity, specifying the Bonds (or the portions thereof) to be redeemed shall be mailed to DTC not more than 60 days nor less than 30 days prior to the redemption date. Any failure on the part of DTC to notify the Direct Participants of the redemption or failure on the part of DTC's Participants, Indirect Participants or of a nominee of a Beneficial Owner having received notice from a DTC Participant or otherwise to notify the Beneficial Owners shall not affect the validity of the redemption.

Record Date

The record date for each payment of interest is the fifteenth day of the month preceding the interest payment date (if such date is not a business day, the record date shall be the next succeeding business day), provided that, with respect to overdue interest, the Paying Agent may establish a special record date. The special record date may not be more than twenty (20) days before the date set for payment. The Paying Agent will mail notice of a special record date to the Bondowners at least ten (10) days before the special record date.

Book-Entry Transfer System

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued in fully-registered form registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC is rated AA+ by Standard & Poor's. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of securities under the DTC system must be made by or through Direct Participants, which will receive a credit for such securities on DTC's records. The ownership interest of each actual purchaser of each security deposited by DTC ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the securities deposited by DTC are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the securities deposited with DTC, except in the event that use of the book-entry system for such securities is discontinued.

To facilitate subsequent transfers, all securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the securities deposited with DTC; DTC's records reflect only the identity of the Direct Participants to whose accounts such securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of a maturity is being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to securities deposited with DTC unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer of such securities or its paying agent as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts such securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on securities deposited with DTC will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Town or its paying agent, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the issuer of such securities or its paying agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the issuer of such securities or its paying agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to securities held by it at any time by giving reasonable notice to the issuer of such securities or its paying agent. Under such circumstances, in the event that a successor depository is not obtained, physical certificates are required to be printed and delivered to Beneficial Owners.

The Town may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, physical certificates will be printed and delivered to Beneficial Owners.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Town believes to be reliable, but the Town takes no responsibility for the accuracy thereof.

Authorization of the Bonds and Use of Proceeds

The following sets forth the principal amounts, purposes, statutory authorizations and dates of Town approval for the current offering of Bonds:

This Issue	Purpose	Original Bond Authorization	Bond Anticipation Notes Outstanding	Statutory Reference	Date of Authorization and Article
\$ 13,055,000	Bancroft Elementary School	\$ 43,835,000 (1)	\$ 12,000,000	Ch. 70B	12/6/10, art.3
300,000	Town Building & Facility Maintenance	300,000		Ch.44, s.7(3A)	5/7/13, art. 28
775,000	Chandler Road Land Acquisition	775,000		Ch.44, s.7(3)	5/7/13, art. 33
900,000	School Building Maintenance & Renovation	900,000		Ch.44, s.7(3A)	5/7/13, art. 36
2,400,000	School Site Improvements	2,500,000		Ch.44, s.7(3A)	5/7/13, art. 18
2,000,000	Youth Center	2,000,000		Ch.44, s.7(3)	12/5/11, art.3
1,250,000	West Middle School Heating System	1,250,000		Ch.44, s.7(3A)	5/7/13, art. 38
3,362,000	Additional Bancroft School	5,715,000 (2)		Ch.70B	2/11/13, art.1
500,000	Water Main Construction	500,000		Ch.44, s.8	4/28/11, art. 42
1,439,000	Water Main Replacement	1,439,000		Ch.44, s.8(5)	5/1/12, art. 35
500,000	Hydrant Replacement #1	1,000,000		Ch.44, s.8(7C)	5/7/13, art. 46
1,000,000	Water Main Replacement 2	1,000,000		Ch.44, s.8(5)	5/8/13, art.41
200,000	Landfill	2,200,000		Ch.44, s.8(7C)	4/27/99, art.44
110,000	GAC Replacement	1,000,000		Ch.44, s.8(7C)	4/29/10, art.33
<u>\$ 27,791,000</u>			<u>\$ 12,000,000</u> (3)		

(1) On January 25, 2011, the Town voted to exempt this authorization from the limitations of Proposition 2 ½.

(2) Approximately 74% of the authorization is exempt from the limitations of Proposition 2½.

(3) A portion of the bond proceeds will retire a like amount of bond anticipation notes maturing on March 7, 2014.

Principal Maturities by Purpose

Calendar Year	Town Bldg & Facility Maintenance	Chandler Road Land Acquisition	School Bldg Maintenance & Renovation	School Site Improvements	Youth Center	Landfill	West Middle School Heating System	Additional Bancroft - NonExempt
2015	\$ 20,000	\$ 40,000	\$ 45,000	\$ 120,000	\$ 100,000	\$ 10,000	\$ 85,000	\$ 52,000
2016	20,000	40,000	45,000	120,000	100,000	10,000	85,000	50,000
2017	20,000	40,000	45,000	120,000	100,000	10,000	85,000	50,000
2018	20,000	40,000	45,000	120,000	100,000	10,000	85,000	50,000
2019	20,000	40,000	45,000	120,000	100,000	10,000	85,000	50,000
2020	20,000	40,000	45,000	120,000	100,000	10,000	85,000	45,000
2021	20,000	40,000	45,000	120,000	100,000	10,000	85,000	45,000
2022	20,000	40,000	45,000	120,000	100,000	10,000	85,000	45,000
2023	20,000	40,000	45,000	120,000	100,000	10,000	85,000	45,000
2024	20,000	40,000	45,000	120,000	100,000	10,000	85,000	45,000
2025	20,000	40,000	45,000	120,000	100,000	10,000	80,000	45,000
2026	20,000	40,000	45,000	120,000	100,000	10,000	80,000	45,000
2027	20,000	40,000	45,000	120,000	100,000	10,000	80,000	45,000
2028	20,000	40,000	45,000	120,000	100,000	10,000	80,000	45,000
2029	20,000	40,000	45,000	120,000	100,000	10,000	80,000	45,000
2030		35,000	45,000	120,000	100,000	10,000		45,000
2031		35,000	45,000	120,000	100,000	10,000		45,000
2032		35,000	45,000	120,000	100,000	10,000		45,000
2033		35,000	45,000	120,000	100,000	10,000		45,000
2034		35,000	45,000	120,000	100,000	10,000		45,000
Total	<u>\$ 300,000</u>	<u>\$ 775,000</u>	<u>\$ 900,000</u>	<u>\$ 2,400,000</u>	<u>\$ 2,000,000</u>	<u>\$ 200,000</u>	<u>\$ 1,250,000</u>	<u>\$ 927,000</u>

Calendar Year	Bancroft School - Exempt	Additional Bancroft - Exempt	Water Main Construction	Water Main Replacement	Hydrant Replacement #1	Water Main Replacement 2	GAC Replacement	TOTAL
2015	\$ 655,000	\$ 125,000	\$ 25,000	\$ 79,000	\$ 50,000	\$ 50,000	\$ 15,000	\$ 1,471,000
2016	655,000	125,000	25,000	75,000	50,000	50,000	15,000	1,465,000
2017	655,000	125,000	25,000	75,000	50,000	50,000	10,000	1,460,000
2018	655,000	125,000	25,000	75,000	50,000	50,000	10,000	1,460,000
2019	655,000	125,000	25,000	75,000	50,000	50,000	10,000	1,460,000
2020	655,000	125,000	25,000	75,000	50,000	50,000	10,000	1,455,000
2021	655,000	125,000	25,000	75,000	50,000	50,000	10,000	1,455,000
2022	655,000	120,000	25,000	70,000	50,000	50,000	10,000	1,445,000
2023	655,000	120,000	25,000	70,000	50,000	50,000	10,000	1,445,000
2024	655,000	120,000	25,000	70,000	50,000	50,000	10,000	1,445,000
2025	655,000	120,000	25,000	70,000		50,000		1,380,000
2026	650,000	120,000	25,000	70,000		50,000		1,375,000
2027	650,000	120,000	25,000	70,000		50,000		1,375,000
2028	650,000	120,000	25,000	70,000		50,000		1,375,000
2029	650,000	120,000	25,000	70,000		50,000		1,375,000
2030	650,000	120,000	25,000	70,000		50,000		1,270,000
2031	650,000	120,000	25,000	70,000		50,000		1,270,000
2032	650,000	120,000	25,000	70,000		50,000		1,270,000
2033	650,000	120,000	25,000	70,000		50,000		1,270,000
2034	650,000	120,000	25,000	70,000		50,000		1,270,000
Total	<u>\$ 13,055,000</u>	<u>\$ 2,435,000</u>	<u>\$ 500,000</u>	<u>\$ 1,439,000</u>	<u>\$ 500,000</u>	<u>\$ 1,000,000</u>	<u>\$ 110,000</u>	<u>\$ 27,791,000</u>

Tax Exemption

In the opinion of Edwards Wildman Palmer, LLP, Bond Counsel to the Town ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other federal tax consequences arising with respect to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. The Bonds are not "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Code.

The Code imposes various requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. Failure to comply with these requirements may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The Town has covenanted to comply with such requirements to ensure that interest on the Bonds will not be included in federal gross income. The opinion of Bond Counsel assumes compliance with these requirements.

Bond Counsel is also of the opinion that, under existing law, interest on the Bonds is exempt from Massachusetts personal income taxes, and the Bonds are exempt from Massachusetts personal property taxes. Bond Counsel has not opined as to other Massachusetts tax consequences arising with respect to the Bonds. Prospective Bondholders should be aware, however, that the Bonds are included in the measure of Massachusetts estate and inheritance taxes, and the Bonds and the interest thereon are included in the measure of certain Massachusetts corporate excise and franchise taxes. Bond Counsel expresses no opinion regarding any other Massachusetts tax consequences or as to the taxability of the Bonds or the income therefrom or any other tax consequences arising with respect to the Bonds under the laws of any state other than Massachusetts. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix B hereto.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes and is exempt from Massachusetts personal income taxes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Bondholders should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount greater than the stated principal amount to be paid at maturity of such Bonds, or, in some cases, at the earlier redemption date of such Bonds ("Premium Bonds"), will be treated as having amortizable bond premium for federal income tax purposes and Massachusetts personal income tax purposes. No deduction is allowable for the amortizable bond premium in the case of obligations, such as the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, a Bondholder's basis in a Premium Bond will be reduced by the amount of amortizable bond premium properly allocable to such Bondholder. Holders of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds.

Prospective Bondholders should be aware that from time to time legislation is or may be proposed which, if enacted into law, could result in interest on the Bonds being subject directly or indirectly to federal income taxation, or otherwise prevent Bondholders from realizing the full benefit provided under current federal tax law of the exclusion of interest on the Bonds from gross income. To date, no such legislation has been enacted into law. However, it is not possible to predict whether any such legislation will be enacted into law. Further, no assurance can be given that any pending or future legislation, including amendments to the Code, if enacted into law, or any proposed legislation, including amendments to the Code, or any future judicial, regulatory or administrative interpretation or development with respect to existing law, will not adversely affect the market value and marketability of, or the tax status of interest on, the Bonds. Prospective Bondholders are urged to consult their own tax advisors with respect to any such legislation, interpretation or development.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from Massachusetts personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect the federal or state tax liability of a Bondholder. Among other possible consequences of ownership or disposition of, or the accrual or receipt of interest on, the Bonds, the Code

requires recipients of certain social security and certain railroad retirement benefits to take into account receipts or accruals of interest on the Bonds in determining the portion of such benefits that are included in gross income. The nature and extent of all such other tax consequences will depend upon the particular tax status of the Bondholder or the Bondholder's other items of income, deduction or exclusion. Bond Counsel expresses no opinion regarding any such other tax consequences, and Bondholders should consult with their own tax advisors with respect to such consequences.

Rating

Standard and Poor's Ratings Group has assigned a rating of AAA on the Bonds. Said rating reflects only the rating agency's views and will be subject to revision or withdrawal, which could affect the market price of the Bonds.

Security and Remedies

Full Faith and Credit. General obligation bonds and notes of a Massachusetts city or town constitute a pledge of its full faith and credit. Payment is not limited to a particular fund or revenue source. Except for "qualified bonds" as described above (see "*Serial Bonds and Notes*" under "INDEBTEDNESS-TYPES OF OBLIGATIONS" below) and setoffs of state distributions as described below (see "*State Distributions*" below), no provision is made by the Massachusetts statutes for priorities among bonds and notes and other general obligations, although the use of certain moneys may be restricted.

Tax Levy. The Massachusetts statutes direct the municipal assessors to include annually in the tax levy for the next fiscal year "all debt and interest charges matured and maturing during the next fiscal year and not otherwise provided for [and] all amounts necessary to satisfy final judgments". Specific provision is also made for including in the next tax levy payments of rebate amounts not otherwise provided for and payment of notes in anticipation of federal or state aid, if the aid is no longer forthcoming.

The total amount of a tax levy is limited by statute. However, the voters in each municipality may vote to exclude from the limitation any amounts required to pay debt service on indebtedness incurred before November 4, 1980. Local voters may also vote to exempt specific subsequent bond issues from the limitation. (See "*Tax Limitations*" Under "PROPERTY TAXATION" below.) In addition, obligations incurred before November 4, 1980 may be constitutionally entitled to payment from taxes in excess of the statutory limit.

Except for taxes on the increased value of certain property in designated development districts which may be pledged for the payment of debt service on bonds issued to finance economic development projects within such districts, no provision is made for a lien on any portion of the tax levy to secure particular bonds or notes or bonds and notes generally (or judgments on bonds or notes) in priority to other claims. Provision is made, however, for borrowing to pay judgments, subject to the General Debt Limit. (See "INDEBTEDNESS-Authorization Procedures and Limitations" below.) Subject to the approval of the State Director of Accounts for judgments above \$10,000, judgments may also be paid from available funds without appropriation and included in the next tax levy unless other provision is made.

Court Proceedings. Massachusetts cities and towns are subject to suit on their general obligation bonds and notes and courts of competent jurisdiction have power in appropriate proceedings to order payment of a judgment on the bonds or notes from lawfully available funds or, if necessary, to order the city or town to take lawful action to obtain the required money, including the raising of it in the next annual tax levy, within the limits prescribed by law. (See "*Tax Limitations*" under "PROPERTY TAXATION" below.) In exercising their discretion as to whether to enter such an order, the courts could take into account all relevant factors including the current operating needs of the city or town and the availability and adequacy of other remedies. The Massachusetts Supreme Judicial Court has stated in the past that a judgment against a municipality can be enforced by the taking and sale of the property of any inhabitant. However, there has been no judicial determination as to whether this remedy is constitutional under current due process and equal protection standards.

Restricted Funds. Massachusetts statutes also provide that certain water, gas and electric, community antenna television system, telecommunications, sewer, parking meter and passenger ferry fee, community preservation and affordable housing receipts may be used only for water, gas and electric, community antenna television system, telecommunications, sewer, parking, mitigation of ferry service impacts, community preservation and affordable housing purposes, respectively; accordingly, moneys derived from these sources may be unavailable to pay general obligation bonds and notes issued for other purposes. A city or town that accepts certain other statutory provisions may establish an enterprise fund for a utility, health care, solid waste, recreational or transportation facility and for police or fire services; under those provisions any surplus in the fund is restricted to use for capital expenditures or reduction of user charges. In addition, subject to certain

limits, a city or town may annually authorize the establishment of one or more revolving funds in connection with use of certain revenues for programs that produce those revenues; interest earned on a revolving fund is treated as general fund revenue. A city or town may also establish an energy revolving loan fund to provide loans to owners of privately-held property in the city or town for certain energy conservation and renewable energy projects, and may borrow to establish such a fund. The loan repayments and interest earned on the investment of amounts in the fund shall be credited to the fund. Also, the annual allowance for depreciation of a gas and electric plant or a community antenna television and telecommunications system is restricted to use for plant or system renewals and improvements, for nuclear decommissioning costs, and costs of contractual commitments, or, with the approval of the State Department of Telecommunications and Energy, to pay debt incurred for plant or system reconstruction or renewals. Revenue bonds and notes issued in anticipation of them may be secured by a prior lien on specific revenues. Receipts from industrial users in connection with industrial revenue financings are also not available for general municipal purposes.

State Distributions. State grants and distributions may in some circumstances be unavailable to pay general obligation bonds and notes of a city or town in that the State Treasurer is empowered to deduct from such grants and distributions the amount of any debt service paid on "qualified bonds" (See "*Serial Bonds and Notes*" under "INDEBTEDNESS-TYPES OF OBLIGATIONS" below) and any other sums due and payable by the city or town to the Commonwealth or certain other public entities, including any unpaid assessments for costs of any public transportation authority (such as the Massachusetts Bay Transportation Authority ("MBTA") or a regional transit authority) of which it is a member, for costs of the Massachusetts Water Resources Authority ("MWRA") if the city or town is within the territory served by the MWRA, for any debt service due on obligations issued to the Massachusetts School Building Authority ("MSBA"), or for charges necessary to meet obligations under the Commonwealth's Water Pollution Abatement or Drinking Water Revolving Loan Programs, including such charges imposed by another local governmental unit that provides wastewater collection or treatment services or drinking water services to the city or town.

If a city or town is (or is likely to be) unable to pay principal or interest on its bonds or notes when due, it is required to notify the State Commissioner of Revenue. The Commissioner shall in turn, after verifying the inability, certify the inability to the State Treasurer. The State Treasurer shall pay the due or overdue amount to the paying agent for the bonds or notes, in trust, within three days after the certification or one business day prior to the due date (whichever is later). This payment is limited, however, to the estimated amount otherwise distributable by The Commonwealth of Massachusetts (the "Commonwealth") to the city or town during the remainder of the fiscal year (after the deductions mentioned in the foregoing paragraph). If for any reason any portion of the certified sum has not been paid at the end of the fiscal year, the State Treasurer shall pay it as soon as practicable in the next fiscal year to the extent of the estimated distributions for that fiscal year. The sums so paid shall be charged (with interest and administrative costs) against the distributions to the city or town.

The foregoing does not constitute a pledge of the faith and credit of the Commonwealth. The Commonwealth has not agreed to maintain existing levels of state distributions, and the direction to use estimated distributions to pay debt service may be subject to repeal by future legislation. Moreover, adoption of the annual appropriation act has sometimes been delayed beyond the beginning of the fiscal year and estimated distributions which are subject to appropriation may be unavailable to pay local debt service until they are appropriated.

Bankruptcy. Enforcement of a claim for payment of principal or interest on general obligation bonds or notes would be subject to the applicable provisions of Federal bankruptcy laws and to the provisions of other statutes, if any, hereafter enacted by the Congress or the State legislature extending the time for payment or imposing other constraints upon enforcement insofar as the same may be constitutionally applied. Massachusetts municipalities are not currently authorized by the Massachusetts General Laws to file a petition for bankruptcy under Federal Bankruptcy laws. In cases involving significant financial difficulties faced by a single city, town or regional school district, the Commonwealth has enacted special legislation to permit the appointment of a fiscal overseer, finance control board or, in the most extreme cases, a state receiver. In a limited number of these situations, such special legislation has also authorized the filing of federal bankruptcy proceedings, with the prior approval of the Commonwealth. In each case where such authority was granted, it expired at the termination of the Commonwealth's oversight of the financially distressed city, town or regional school district. To date, no such filings have been approved or made.

Opinion of Bond Counsel

The purchaser will be furnished the legal opinion of the firm of Edwards Wildman Palmer LLP, of Boston, Massachusetts. The opinion will be dated and given on and will speak only as of the date of original delivery of the Bonds to the successful bidder. The opinion will be substantially in the form presented in Appendix B.

Other than as to matters expressly set forth herein as the opinion of Bond Counsel, Bond Counsel is not passing upon and does not assume any responsibility for the accuracy or adequacy of the statements made in this Official Statement and make no representation that they have independently verified the same.

Financial Advisory Services of First Southwest Company

First Southwest Company, Boston, Massachusetts serves as financial advisor to the Town of Andover, Massachusetts.

Continuing Disclosure

In order to assist the Underwriters in complying with Rule 15c2-12(b)(5) promulgated by the Securities and Exchange Commission (the "Rule"), the Town will covenant for the benefit of owners of the Bonds to provide certain financial information and operating data relating to the Issuer by not later than 270 days after the end of each fiscal year (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events. The covenants will be contained in a Continuing Disclosure Certificate, the proposed form of which is provided in Appendix C. The Certificate will be executed by the signers of the Bonds, and incorporated by reference in the Bonds. **The Town has never failed to comply in all material respects with any previous undertakings to provide annual reports or notices of significant events in accordance with the Rule. Aside from the Town, there are no obligated persons with respect to the Bonds.**

TOWN OF ANDOVER, MASSACHUSETTS

General

The Town of Andover is located in Essex County approximately 22 miles north of Boston on the Merrimack River. Andover has a population of approximately 33,201 (2010 federal census) and occupies a land area of 32 square miles. The Town is governed by an open town meeting and administered by a Town Manager and a five-member Board of Selectmen.

The following table sets forth the principal executive officials of the Town.

Principal Town Officials

<u>Town Title</u>	<u>Name</u>	<u>Selection</u>	<u>Term Expires</u>
Selectman, Chair	Alexander J. Vispoli	Elected	2016
Selectman, Vice Chair	Daniel H. Kowalski	Elected	2015
Selectman, Secretary	Brian P. Major	Elected	2015
Selectman	Paul J. Salafia	Elected	2016
Selectman	Mary K. Lyman	Elected	2014
Town Manager	Reginald S. Stapczynski	Appointed	2015
Director of Finance	Donna M. Walsh	Appointed	Indefinite
Treasurer/Collector	David J. Reilly	Appointed	Indefinite
Acting Town Accountant	Theo Moccia	Appointed	2014
Town Clerk	Lawrence J. Murphy	Appointed	Indefinite

Municipal Services

The Town provides general governmental services for the territory within its boundaries, including police and fire protection, disposal of solid waste, water and sewer services, schools for grades kindergarten through 12, street maintenance, parks and recreational facilities, a library and a land conservation program. The Andover Housing Authority provides housing for the elderly and low-income families.

The Greater Lawrence Regional Vocational Technical High School District provides vocational and technical education for students in grades 9 through 12.

The Town operates its own water supply, purification and distribution system providing water services to essentially all residential, industrial and commercial users in the Town. The Town provides the Town of North Reading with water on an emergency basis.

Wastewater treatment services are provided for many of the Town's residential users and essentially all of the Town's industrial and commercial users via connections to the Greater Lawrence Sanitary District. The Town's Public Works Department is responsible for the operation and maintenance of the Town's wastewater pumping stations and the entire system of sanitary sewers.

Education

The Town's public school facilities include five elementary schools and one early childhood center, three middle schools and one senior high school. The following table, provided by the Andover School Department, sets forth the trend in public school enrollments for the last five years.

PUBLIC SCHOOL ENROLLMENTS - OCTOBER 1

	Actual				
	2009	2010	2011	2012	2013
Elementary (PK-5)	2,885	2,877	2,887	2,903	2,805
Middle School (6-8)	1,483	1,531	1,526	1,535	1,511
Senior High	1,799	1,802	1,803	1,816	1,800
Total	<u>6,167</u>	<u>6,210</u>	<u>6,216</u>	<u>6,254</u>	<u>6,116</u>

In the mid 1990's, the Town borrowed approximately \$42,000,000 for additions to and reconstruction of Andover High School, the South Elementary School and the Sanborn Elementary School. The debt service was excluded from the limits of Proposition 2 ½ and the Town is receiving a reimbursement from the State School Building Assistance Program for 60% of construction and interest expenses. There is approximately \$5,796,435 remaining in State grant payments to be received. These projects upgraded facilities and increased available capacity. In December 2010, the Town authorized \$43.8 million for the construction of a new K to five, 680 student, Bancroft Elementary School. In February 2013, the Town authorized \$5,715,000 bonds to cover additional costs of the project. The Massachusetts School Building Authority has agreed to provide grants of approximately \$15.7 million of project costs for the Bancroft School. In December 2012, the Town issued \$14 million bonds for a portion of the Town's share of project costs. It is expected that the \$17.7 million included in this issue of bonds will be sufficient to complete the project. All but approximately \$962,000 of these authorizations, and associated interest, are excluded from the limits of Proposition 2 ½.

The Town is also a member of the Greater Lawrence Regional Vocational Technical High School District. Other members include Lawrence, North Andover and Methuen. Andover enrollment averages less than 2% of District total enrollment. The District has recently completed a substantial reconstruction of its facilities. (See Overlapping Debt).

Industry and Commerce

The Town of Andover is primarily residential in character but has a substantial amount of industry. Manufacturing is the leading economic pursuit. The table below sets forth the major categories of income and employment in the Town during the following calendar years.

Industry	Calendar Year Average				
	2008	2009	2010	2011	2012
Construction	532	440	448	447	476
Manufacturing	9,394	9,629	9,936	10,605	9,592
Trade, Transportation and Utilities	2,086	1,997	1,979	2,029	2,487
Information	1,664	1,416	1,255	1,171	1,197
Financial Activities	1,481	1,361	1,967	1,920	1,869
Professional and Business Services	8,439	8,065	8,035	8,173	10,035
Education and Health Services	4,910	4,932	4,355	4,248	4,348
Leisure and Hospitality	1,767	1,682	1,721	1,784	1,909
Other Services	682	660	670	647	666
Total Employment	<u>30,955</u>	<u>30,182</u>	<u>30,366</u>	<u>31,024</u>	<u>32,579</u>
Number of Establishments	1,123	1,122	1,667	1,195	1,195
Average Weekly Wages	\$ 1,369	\$ 1,440	\$ 1,498	\$ 1,562	\$ 1,612
Total Wages	<u>\$ 2,332,833,133</u>	<u>\$ 2,383,395,873</u>	<u>\$ 2,463,133,945</u>	<u>\$ 2,625,047,003</u>	<u>\$ 2,842,281,090</u>

Source: Massachusetts Department of Education and Training. Data based upon place of employment, not place of residence. Due to the reclassification the U.S. Department of Labor now uses the North American Industry Classification System (NAICS) as the basis for the assignment and tabulation of economic data by industry.

Largest Employers

The following table lists the largest employers in Andover, exclusive of the Town itself.

Name	Product/Function	Approximate Number of Employees
Raytheon Co. & Endrock Associates	Missile Systems	4,750
Internal Revenue Service	Regional Service Center	3,500
Phillips Healthcare	Medical Electronics	2,300
Pfizer	Biopharmaceuticals (RDNA)	1,200
Putman Investments	Mutual Funds	900
Vicor	Computer Equipment	850
Verizon New England	Communications	600
Phillips Academy	Private School	555
Enterasys	Date Processing Services	500
Hewlett Packard Services	Computer Equipment	500
Smith & Nephew	Medical Devices	500
Zwicker & Associates	Law Firm	350
Draeger Medical	Medical and safety technology	300
CGI	Technology Research & Mfg	273
Northrop Grumman	Defense Systems	265
Esai Research Institute	Research	258
Procter + Gamble (formerly Gillette)	Beauty Care Products	250
Andover Country Club	Banquet Room/Golf Courses	240
Greater Lawrence Technical	School	230
Straumann	Dentistry	255
The Andover Companies	Insurance	217
Injured Workers Pharmacy	Pharmacy	200
Polycom	Technology	150
WSI	Data Processing Services	120
Massachusetts School of Law	Education	110
DeMoulas	Grocery Store	100
Caradigm (Formerly Microsoft)	Technology	100
MKS	Mfg. Instruments	90
Alabanza Corporation	Research and Investing Information	85

Economic Development Summary

The development climate in Andover continues to reflect positive trends and activities. The River Road industrial district along I-93 continues to provide jobs for approximately 9,000 people in a built environment of more than 6,000,000 square feet of office, research and development, and hi-tech manufacturing space. The district has capacity for more than an additional 1,000,000 square feet of expansion. The River Road area is home to numerous medical device and pharmaceutical companies such as Philips Medical with more than 2,300 employees, Smith + Nephew Endoscopy, Eisai Research Institute, Transmedics, Inc., the Straumann Company, Draeger Medical, and Formatech Inc. This fall, Charm Sciences Inc, will be moving into a refurbished 30,200 s.f. facility at One Riverside Drive.

There are several electronics, communications, and financial companies in the district as well, Navisite, Navistar, Motorola-Quantum Bridge, Polycom, CGI, NWS (a high-tech weather service company), Wachovia Securities and Putnam Investments with nearly 900 employees. Also located in the River Road industrial district are such firms as Microsoft, Verizon, the Massachusetts School of Law, the Vicor Company, Boston Technology, MKS Instruments and the Marriott Corporation.

The River Road corridor is presently home to several hotels, Courtyard Marriott, Residence Inn, Springhill Suites, Staybridge Suites, Wyndham, Homewood Suites and LaQuinta hotel.

In the spring of 2012, the Town of Andover successfully approved via Town Meeting the Town's first Tax Increment Financing (TIF) for Schneider Electric. Schneider Electric (SE) will relocate and consolidate several area operations into a redeveloped and expanded facility at 800 Federal Street (160,860 sf), with the 77,000 sf addition presently under construction. In total this project is scheduled to bring on-line approximately 227,860 sf of industrial space that has been sparsely occupied since developed back in 1999. SE has committed to bring 600 jobs to Andover, with opportunities for future organic growth in the adjacent facility located at 600 Federal Street. With a minimum private investment of \$20 million, the current assessment of \$8 million would substantially rise to an estimated \$20 million, with the projected new annual tax revenue being approximately \$470,000. The new headquarters for Schneider Electric is anticipated to be opened in the winter of 2014.

The Dascomb Road/Lowell Street industrial area, also adjacent to I-93 is home to the large Raytheon Company facility with more than 1,000,000 square feet of space and is in an expanding business environment. Along with Raytheon, are Hewlett-Packard (447,500 square feet), the Internal Revenue Northeast Service Center, California Products (174,665 square feet), and the Brockway Smith Company (42,000 square feet). Other businesses such as Cambridge Isotopes Mayo Clinic and The Professional Center for Child Development also reside within the Dascomb Road/Lowell Street industrial area. The corporate headquarters of the Vicor Company is located on Frontage Road, with manufacturing operations being conducted at its Federal Street facility.

More recently, the Planning Board approved the construction of a 10,000 SF medical building at 321 Lowell Street, with the owners of 23 Frontage Road, investing nearly a half million into the existing 64,000 sf facility, while achieving LEED-CS Silver Certification for the building improvements.

Other major tenant improvements in 2013 included a \$1.1 million investment by Pfizer for tenant fit up at One Burt Road; \$2 million investment by Philips Medical for campus improvements at 3000 Minuteman Drive; \$4.03 million by Phillips Academy for interior/exterior renovations to Bishop Hall (dormitory) and an \$800,000 investment by Procter & Gamble (formerly Gillette) at 30 Burt Road.

In May of 2013, Town Meeting voters approved a zoning change for portions of River Road and Dascomb Road, an area comprising 540 acres. A very common observation in Andover is that the residents and workers in the West Andover and the Dascomb Road area have limited access to obtain the typical services that homeowners, business people and employees readily enjoy in other parts of Andover. Taking Smart Growth seriously, the proposed Industrial 2 rezoning would encourage and authorize service-focused development along portions of River Road and Dascomb Road. By rezoning these two strategically targeted areas, the district would allow for currently non-existent conveniences and services to be provided to the underserved residents, business community, and commuters by allowing an appropriately scaled and designed mix of services. Consistent with Smart Growth practices, adoption of the ID2 Zoning District would allow Andover residents, workers and commuters to reduce their travel time between needed amenities, and home and work, while positioning Andover to remain economically competitive within the region.

In response to the Town's forward planning and approval of the ID2 Zoning, the Town is now in the process of permitting the Restaurant Depot at 146 Dascomb Road. The project comprises 86,600 square feet of existing warehouse space that has been vacant for nearly ten years. With the new zoning in place the Town has set the table for complimentary land uses to move forward in these targeted economic development areas.

In an attempt to address the immediate need for Senior Housing the Town has taken proactive steps in providing for housing for its aging population. At the 2013 Annual Town Meeting, voters approved the 113 acre Senior Residential Community Overlay District off River Road, at the former the Franciscan Center. Today, the Town of Andover, with 26% of its population over 55, faces a long-term shortage of senior housing. The approval of this overlay district will help Andover address both the need for more housing designed for the Town's retirees. The Town is now in the process of working with various senior residential developers in preparing the site for permitting.

In the Lowell Junction industrial district along I-93, Pfizer continues to retrofit its physical plant, and presently operates out of more nearly 900,000 square feet of built space on its biopharmaceutical research and manufacturing campus. Pfizer's master plan calls for building an additional 1,000,000 square feet. Back in 2010 Pfizer announced as part of their plant network strategy, Andover will serve as the long term role as mammalian clinical/launch facility and global production site for polysaccharides. Alaska Diesel occupies a 43,000 square foot facility on Connector Road. The Procter and Gamble Company (formerly the Gillette Company) currently occupies 592,000 square feet of space in the district, with Standard Duplicating, Granite City Electric, Bodycote, Reid Graphics also occupying space in the Lowell Junction area.

One of the region's largest photovoltaic facilities is presently under construction at 1350 South Street, located in the Lowell Junction industrial district. The +/- 4 MW solar photovoltaic facility includes the erection and installation of a fixed ground mount PV solar facility, which encompasses 17.4 acres. According to the project's proponent, the 3-foot by 5-foot panels are expected to produce energy projects to power about 800 homes indefinitely.

Although in a holding pattern awaiting funding from the Federal Highway Administration and the Commonwealth, the Towns of Andover, Tewksbury and Wilmington are committed to seeing the unified development plan become a reality. The anticipated creation of a new interchange on I-93 near the Pfizer and Procter & Gamble (formerly Gillette) facilities will make more than 395 acres of land accessible for industrial expansion with the potential of bringing on line approximately 2 million square feet of new hi-tech office/industrial space. In total, the development area has a potential to yield approximately 4 million square feet of new office/industrial/commercial space (2 million square feet in Andover) with direct access off Route 93, with estimates that this in-fill development could support as many as 11,500 new jobs if fully developed.

The ultimate goal of the form-based code is to help facilitate more efficient land utilization, provide opportunities for increased tax revenues and increased economic development, while helping mitigate traffic congestion through abutting residential neighborhoods.

Brickstone Square, which is a large 1,000,000 square foot former mill complex in the Shawsheen area adjacent to I-495 continues to thrive. The Brickstone complex is home to more than 54 different firms, including health providers such as Genesis Health Care Corporation, Kindred Health Care, Medical Health Care Solutions and Well Point, and financial firms such as Merrill Lynch, Northern Capital Advisors Corporation, Preferred Financial Services, and RBC Dain Rauscher, as well as computer and electronics firms such as Northrop Grumman, Specialty Filaments, Broadcom, Pan Communications and Agere Systems. Other firms include Mitsubishi International, the Northeast Document Conservation Center, Andover Controls, Basilea, Regus, Aras, Sofft Shoe and over the past year many new companies have relocated to Brickstone Square, such companies include Standard Capital, Constitutional Capital, Helium, Caristone, ORA, Capsule Tech, Volcano, Genalytics and Acquia.

Existing commercial and retail activities in downtown Andover increased in 2013. During the year the Town welcomed several new retail stores and restaurants. This past year, the downtown has welcomed Pink Tree Sweets, the Greater Boston Running Company, Salvatore's Restaurant, Pizza Connection, One Tong Chai Restaurant and Madox Jewelry. More recently, the Planning Board approved an application to the existing 64,474 square foot mixed used property located 89 Main Street. This project presents a unique opportunity to bring new life to an aged facility, by redeveloping and preserving 64,474 s.f. of mixed used space in downtown. By redeveloping the existing building the applicant is reinforcing the Town's character and enhancing the overall economic environment in downtown.

Renovations/construction within the Shawsheen Plaza have continued throughout the past year, with Raagin's Indian bistro, Sports Clips, Sleepy's and Planet Fitness now open for business.

This past summer the Zoning Board of Appeals approved the Apartments at Rolling Green off Lowell Street, which will allow for a new 224 unit 40B residential rental apartment development. Two other 40B developments have come online this summer, Avalon Bay, 115 rental units and North Field Commons off North Street, 80 ownership units, with Taylor Cover off River Street, 32 units presently under construction.

In September of 2013, Merrimack College opened their new residential dorms on campus. The five new campus dormitories will provide housing to 350 students.

Over the past year, residential activity in Andover has remained strong, with the following residential projects being permitted by the Planning Board:

Recently permitted:

- Arbor Lane 3-lot subdivision – permitted
- 39-47 High Plain Road 3-lot subdivision – permitted
- Weeping Willow 9-lots subdivision – permitted
- Katsikis Estates 2-lot subdivision – permitted
- Celestial Circle 9-lot subdivision – permitted (under appeal)
- 60-62 Essex Street Planned Development - permitted

- 276 North Main Street construction of a 9,524 s.f. barn to be used as office space and storage – permitted – under construction
- 15 Stevens Street Atria Senior Living – addition – permitted - constructed
- Bancroft School - construction of a 106,486 sf school for grades K-5 – permitted – under construction
- 429 South Main Street a new 4,549 s.f. retail/restaurant/office building – permitted - under construction
- 321-325 Lowell Street - new medical building – permitted – under construction
- 600-800 Federal Street - addition – permitted – under construction
- 6 Tech Drive - addition – permitted – under construction
- 26 Central Street St. Augustine's School construction of a 6,915 s.f. gymnasium – permitted – under construction
- 89-93 Main Street – Planned Development – permitted – under construction

Presently under construction:

- Hay Bale Parish 4 lots Definitive subdivision -completed
- Manning Way 5-lots Definitive subdivision-under construction
- Black Horse Lane 8-lots Definitive subdivision-under construction
- Seller Farm Estates 3-lots Definitive subdivision- permitted
- Shandel Circle 8-lots Definitive subdivision-under construction
- Newport Circle 6-lots Definitive subdivision -under construction
- Pine Forest Park 11- lots Definitive Subdivision – under construction
- 340 Salem Street – 2-lots Definitive subdivision – permitted
- The Legends Phase I – 24 condominium units (under construction)
- The Legends Phase II – 27 condominium units (under construction)
- Swan Crossing I, II and III – 56 condominium units (under construction)
- Lincoln Woods – 21 condominium units (under construction)

Labor Force, Employment and Unemployment Rates

According to the Massachusetts Division of Employment and Training, in December 2013, the Town had a total labor force of 17,029 of which 16,202 were employed and 827 or 4.9% were unemployed, as compared with 6.7% for the Commonwealth (unadjusted) and 7.3% for the United States.

The following table sets forth the Town's average labor force and unemployment rates, as well as the unemployment rates for the Commonwealth and the United States, for the last five calendar years.

UNEMPLOYMENT RATES

Year	Town of Andover		Massachusetts Unemployment	United States Unemployment Rate
	Labor Force	Unemployment Rate		
2012	16,018	4.9 %	6.7 %	7.8 %
2011	16,691	5.7	6.8	8.9
2010	16,838	7.1	8.5	9.6
2009	16,940	6.9	8.1	9.3
2008	17,018	4.0	5.3	5.8

SOURCE: U.S. Bureau of Labor Statistics and Massachusetts Department of Revenue, Division of Local Services. Monthly data are unadjusted.

Building Permits

The table below sets forth the number of building permits issued and the estimated dollar value of new construction and alterations for the following calendar years. The estimated dollar values are builders' estimates, which are generally considered to be conservative. The table reflects permits filed and estimated valuations (in thousands) for both private construction and Town projects.

Calendar Year	New Construction				Other(1)		Totals	
	Residential		Non-Residential		No.	Value	No.	Value
	No.	Value	No.	Value				
2013	51	\$ 17,704	2	\$ 7,705	1,235	\$ 70,269	1,288	\$ 95,678
2012	46	28,871	3	35,929	1,316	61,144	1,260	125,944
2011	37	14,474	-	-	1,116	52,593	1,153	67,067
2010	23	11,524	2	2,877	1,232	52,724	1,257	67,125
2009	17	7,688	1	13	1,151	48,221	1,169	55,922

(1) Additions and alterations to all types of buildings (including residential), as well as permits for pools, demolitions, signs, and others.

Transportation and Utilities

The principal highways serving the Town include Interstate Route 495, which connects to Interstate 95 and Interstate Route 93. Transportation is available to Andover residents aged sixty and older or handicapped via the Merrimac Valley Regional Transit Authority (MVRTA) to the neighboring communities of Lawrence, North Andover and Methuen. Established trucking firms provide competitive service locally and to long distance points. Commuter rail service to Boston is provided by the Massachusetts Bay Transit Authority (MBTA). Logan International Airport in Boston is about 25 miles south of Andover and Lawrence Municipal Airport in North Andover has two paved runways (5,000 and 3,100 feet long, respectively).

Gas and electric services are provided by established private utilities.

Population, Income and Wealth Levels

The following table shows the median age, median family income and per capita income according to the Federal Census.

	<u>Andover</u>	<u>Massachusetts</u>	<u>United States</u>
Median Age:			
2010	42.1	39.1	37.2
2000	39.5	36.5	35.3
1990	36.4	33.6	32.9
Median Family Income:			
2010	\$ 139,043	\$ 81,165	\$ 51,144
2000	104,820	61,664	50,046
1990	70,757	44,367	35,225
Per Capita Income:			
2010	\$ 51,194	\$ 33,966	\$ 27,334
2000	41,133	25,952	21,587
1990	26,327	17,224	14,420

SOURCE: U.S. Bureau of the Census.

POPULATION TRENDS

<u>2010</u>	<u>2000</u>	<u>1990</u>	<u>1980</u>
33,201	31,247	29,151	26,370

SOURCE: U.S. Bureau of the Census.

PROPERTY TAXATION

Tax Levy Computation

The principal revenue source of the Town is the tax on real and personal property. The amount to be levied in each year is the amount appropriated or required by law to be raised for municipal expenditures less estimated receipts from other sources and less appropriations voted from available funds. The total amount levied is subject to certain limits prescribed by law; for a description of those limits, see "Tax Limitations" below. The estimated receipts for a fiscal year from other sources may not exceed the actual receipts during the preceding fiscal year from the same sources unless approved by the State Commissioner of Revenue. Excepting special funds, the use of which is otherwise provided for by law, the deduction for appropriations voted from available funds for a fiscal year cannot exceed the "free cash" as of the beginning of the prior fiscal year as certified by the State Director of Accounts plus up to nine months' collections and receipts on account of earlier years' taxes after that date. Subject to certain adjustments, free cash is surplus revenue less uncollected overdue property taxes from earlier years. Although an allowance is made in the tax levy for abatements (see "Abatements and Overlay" below) no reserve is generally provided for uncollectible real property taxes. Since some of the levy is inevitably not collected, this creates a cash deficiency which may or may not be offset by other items (see "Taxation to Meet Deficits" below).

The table below illustrates the manner in which the tax levy was determined for the following fiscal years.

	Fiscal 2010	Fiscal 2011	Fiscal 2012	Fiscal 2013	Fiscal 2014
Total Appropriations(1)	\$ 132,409,866	\$ 136,128,816	\$ 140,905,913	\$ 143,073,064	\$ 153,677,362
Additions:					
State and County Assessments	3,079,417	2,926,555	2,426,090	2,482,440	2,809,351
Overlay Reserve	822,806	772,521	980,114	985,564	981,735
Other Additions	307,317	65,280	97,712	205,334	111,070
Total Additions	<u>4,209,539</u>	<u>3,764,356</u>	<u>3,503,916</u>	<u>3,673,338</u>	<u>3,902,156</u>
Gross Amount to be Raised	<u>136,619,405</u>	<u>139,893,172</u>	<u>144,409,829</u>	<u>146,746,402</u>	<u>157,579,517</u>
Deductions:					
Local Estimated Receipts	23,577,454	23,254,528	23,406,748	23,353,649	23,975,630
State Aid:(2)					
Current Year	11,125,672	10,370,852	10,265,154	11,400,546	11,977,456
Available Funds:(3)					
Free Cash	334,000	1,123,500	992,000	-	3,180,965
Other	292,163	485,992	871,771	98,694	939,035
Total Deductions	<u>35,329,289</u>	<u>35,234,872</u>	<u>35,535,673</u>	<u>34,852,889</u>	<u>40,073,086</u>
Net Amount to be Raised (Tax Levy)	<u>\$ 101,290,116</u>	<u>\$ 104,658,300</u>	<u>\$ 108,874,156</u>	<u>\$ 111,893,513</u>	<u>\$ 117,506,432</u>

- (1) Includes annual appropriations from taxation voted subsequent to adoption of the annual budget but prior to setting the tax rate.
- (2) Estimated by the State Department of Revenue and required by law to be used in setting of the tax rate. Actual state aid payments may vary upward or downward from said estimates, and the State may withhold payments pending receipt of State and County assessments.
- (3) Transfers from available funds, including "Free Cash" (see "Free Cash"), generally made as an offset to a particular appropriation item.

Assessed Valuations and Tax Levies

Property is classified for the purpose of taxation according to its use. The legislature has in substance created three classes of taxable property: (1) residential real property, (2) open space land, and (3) all other (commercial, industrial and personal property). Within limits, cities and towns are given the option of determining the share of the annual levy to be borne by each of the three categories. The share required to be borne by residential real property is at least 50 per cent of its share of the total taxable valuation; the effective rate for open space must be at least 75 per cent of the effective rate for residential real property; and the share of commercial, industrial and personal property must not exceed 175 percent of their share of the total valuation. A city or town may also exempt up to 20 percent of the valuation of residential real property (where used as the taxpayer's principal residence) and up to 10 percent of the valuation of commercial real property (where occupied by certain small businesses). Property may not be classified in a city or town until the State Commissioner of Revenue certifies that all property in the city or town has been assessed at its fair cash value. Such certification must take place every three years, or pursuant to a revised schedule as may be issued by the Commissioner.

Related statutes provide that certain forest land (which is to be valued at not exceeding \$10 per acre), agricultural or horticultural land (assessed at the value it has for these purposes) and recreational land (assessed on the basis of its use at a maximum of 25 percent of its fair cash value) are all to be taxed at the rate applicable to commercial property.

Classification came in part in response to a general recognition that, under the prior system of valuation, there were substantial discrepancies in fact between fair cash values and assessed valuations within municipalities and relative discrepancies as between municipalities. The table below sets forth the trend in the Town's assessed valuations, tax rates, tax levies, and tax levies per capita for the following fiscal years.

Assessed Valuations and Tax Rates

Fiscal Year	Real Estate Valuation	Personal Property Valuation	Total Assessed Valuation	Tax Rate Per \$1,000 Valuation		Tax Levy	Tax Levy Per Capita(1)
				Residential	All Other		
2014	\$ 6,603,408,999	\$ 237,117,137	\$ 6,840,526,136	\$ 15.18	\$ 25.25	\$ 117,506,432	\$ 3,539
2013	6,568,379,699	234,340,227	6,802,719,926	14.51	24.26	111,893,513	3,370
2012 (2)	6,575,020,299	223,484,947	6,798,505,246	14.15	23.54	108,874,156	3,279
2011	6,415,226,755	201,324,807	6,616,551,562	14.12	22.46	104,658,300	3,152
2010	6,665,118,627	172,538,617	6,837,657,244	13.19	21.33	101,290,116	3,051

(1) Based on 2010 U.S. Bureau of the Census figure.

(2) Revaluation year.

Property Classification

The table below shows the breakdown of the Town's assessed valuation for the following fiscal years by class.

Property Type	2012		2013		2014	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Residential	\$ 5,440,621,421	80.0 %	\$ 5,441,912,945	80.0 %	\$ 5,474,892,385	80.0 %
Commercial	547,695,778	8.1	544,010,554	8.0	541,616,314	7.9
Industrial	578,692,200	8.5	574,064,300	8.4	578,490,500	8.5
Open Space	8,010,900	0.1	8,391,900	0.1	8,409,800	0.1
Personal	223,484,947	3.3	234,340,227	3.4	237,117,137	3.5
	<u>\$ 6,798,505,246</u>	<u>100.0 %</u>	<u>\$ 6,802,719,926</u>	<u>100.0 %</u>	<u>\$ 6,840,526,136</u>	<u>100.0 %</u>

Largest Taxpayers

The following is a list of the ten largest taxpayers in the Town based upon taxes assessed for fiscal 2014. All of the taxpayers listed below are current in their tax payments.

Name	Property Type	Total Taxable Real and Personal	Total Tax Assessed	Percent of Total Levy
Pfizer	Industrial	\$81,422,700	\$2,055,923	1.75 %
Transwestern Brickstone Square LLC	Commercial	71,174,700	1,797,161	1.53
Eisai Research Institute	Commercial/Ind.	67,692,690	1,709,245	1.45
Raytheon Co. & Endrock Associates	Industrial/Residential	60,440,750	1,526,129	1.30
Philips Electro No Amer Corp. (Agilent)	Industrial	49,755,300	1,256,322	1.07
Navisite Inc.	Commercial/Ind.	41,536,470	1,048,796	0.89
RREEF America REIT III Corp. ZI	Commercial/Ind.	39,400,300	994,858	0.85
One Hundred Minuteman LLC	Industrial	39,156,300	988,697	0.84
Proctor + Gamble (Gillette)	Industrial	35,989,200	908,727	0.77
Verizon New England	Com/Utility	34,247,000	864,737	0.74
Total		<u>\$520,815,410</u>	<u>\$13,150,595</u>	<u>11.19 %</u>

State Equalized Valuation and Estimated Full Value Tax Rate

In order to determine appropriate relative values for the purposes of certain distributions to and assessments upon cities and towns, the Commissioner of Revenue biennially makes a redetermination of the fair cash value of the taxable property in each municipality as of January 1 of even numbered years. This is known as the "equalized value". The following table sets forth the trend in equalized valuations of the Town of Andover.

<u>January 1,</u>	<u>State Equalized Valuation</u>	<u>% Change</u>
2012	\$ 7,292,906,600	(1.52) %
2010	7,405,664,700	(4.53)
2008	7,757,246,999	5.49
2006	7,353,584,000	12.68
2004	6,525,840,900	16.75
2002	5,589,664,700	30.95
2000	4,268,662,500	21.14

Abatements and Overlay

The Town is authorized by law to increase each tax levy by an amount approved as reasonable by the Commissioner of Revenue for an "overlay" to provide for tax abatements. If abatements are granted in excess of the applicable overlay reserve, the resultant "overlay deficit" is required to be added to the next tax levy. Any balance in the overlay account, in excess of the amount of the warrant remaining to be collected or abated, is transferred to a reserve fund to be used for extraordinary or unforeseen expenses. Abatements are granted where exempt real or personal property has been assessed or where taxable real or personal property has been overvalued or disproportionately valued. The assessors may also abate uncollectible personal property taxes. They may abate real and personal property taxes on broad grounds (including inability to pay) with the approval of the State Commissioner of Revenue.

Overlay Reserve and Abatements and Exemptions

The table below sets forth the amount of the overlay reserve for the last five fiscal years, and actual abatements and exemptions granted through June 30, 2013, against the respective fiscal year's levy.

Fiscal Year	Net Tax Levy (1)	Overlay Reserve		Abatements Granted Through June 30, 2013
		Dollar Amount	As a % of Net Levy	
2013	\$ 110,907,949	\$ 985,564	0.89 %	\$ 395,452
2012	107,894,042	980,114	0.91	365,593
2011	103,885,779	772,521	0.74	598,651
2010	100,467,310	822,806	0.82	725,791
2009	96,687,573	1,289,181	1.33	831,752

(1) Tax levy prior to addition of overlay reserve.

Tax Collections

The Town has instituted quarterly tax billings, with tax bills payable August 1, November 1, February 1, and May 1 of each fiscal year. Interest accrues on delinquent taxes at the rate of 14 percent per annum. Under recent legislation, cities and towns are authorized to establish a municipal tax amnesty program through June 30, 2004 permitting the payment of delinquent property taxes without interest or with reduced interest during the period of the program. Real property (land and buildings) is subject to a lien for the taxes assessed upon it, subject to any paramount federal lien and subject to bankruptcy and insolvency laws. If the property has been transferred, an unenforced lien expires on the fourth December 31 after the end of the fiscal year to which the tax relates. If the property has not been transferred by the fourth December 31, an unenforced lien expires upon a later transfer of the property. Provision is made, however, for continuation of the lien where it could not be enforced because of a legal impediment. The persons against whom real or personal property taxes are assessed are personally liable for the tax (subject to bankruptcy and insolvency laws). In the case of real property, this personal liability is effectively extinguished by sale or taking of the property as described below.

The table below compares the Town's net tax collections with its net (gross tax levy less overlay reserve for abatements) tax levies for the following fiscal years.

Fiscal Year	Gross Tax Levy	Overlay Reserve for Abatements	Net Tax Levy	Collections During Fiscal Year Payable(1)	
				Dollar Amount	% of Net Levy
2014	\$ 117,506,432	\$ 981,735	\$ 116,524,697	\$ 56,321,601	48.33 % (2)
2013	111,893,513	985,564	110,907,949	109,842,281	99.04
2012	108,874,156	980,114	107,894,042	107,067,732	99.23
2011	104,658,300	772,521	103,885,779	102,625,682	98.79
2010	101,290,116	822,806	100,467,310	99,241,767	98.78

(1) Actual dollar collections net of refunds. Does not include abatements proceeds of tax titles or tax possessions attributable to each levy or other non-cash credits.

(2) Collected through December 31, 2013.

Tax Titles and Possessions

Massachusetts law permits a municipality either to sell by public sale (at which the municipality may become the purchaser) or to take real property for non-payment of taxes thereon. In either case the property owner can redeem the property by paying the unpaid taxes, with interest and other charges, but if the right of redemption is not exercised within six months (which may be extended an additional year in the case of certain installment payments) it can be foreclosed by petition to the land court.

Upon such foreclosure, a tax title purchased or taken by the municipality becomes a "tax possession" and may be held and disposed of like any land held for municipal purposes. Uncollectible real property taxes are ordinarily not written off until they become municipal tax titles (either by purchase at the public sale or by taking), at which time the tax is written off in full by reserving the amount of tax and charging surplus.

The following table sets forth the amount of tax titles and possessions as of the end of each of the following fiscal years.

<u>Fiscal Year</u>	<u>Total Tax Titles and Possessions</u>
2013	\$ 1,634,203
2012	1,302,120
2011	1,334,698
2010	1,237,434
2009	924,463

Taxation to Meet Deficits

As noted elsewhere (see "*Abatements and Overlay*" above) overlay deficits, i.e. tax abatements in excess of the overlay included in the tax levy to cover abatements, are required to be added to the next tax levy. It is generally understood that revenue deficits, i.e. those resulting from non-property tax revenues being less than anticipated, are also required to be added to the tax levy (at least to the extent not covered by surplus revenue).

Amounts lawfully expended since the prior tax levy and not included therein are also required to be included in the annual tax levy. The circumstances under which this can arise are limited since municipal departments are generally prohibited from incurring liabilities in excess of appropriations except for major disasters, mandated items, contracts in aid of housing and renewal projects and other long-term contracts. In addition, utilities must be paid at established rates and certain established salaries, e.g. civil service, must legally be paid for work actually performed, whether or not covered by appropriations.

Cities and towns are authorized to appropriate sums, and thus to levy taxes, to cover deficits arising from other causes, such as "free cash" deficits arising from a failure to collect taxes. This is not generally understood, however, and it has not been the practice to levy taxes to cover free cash deficits. Except to the extent that such deficits have been reduced or eliminated by subsequent collections of uncollected taxes (including sales of tax titles and tax possessions), lapsed appropriations, non-property tax revenues in excess of estimates, other miscellaneous items or funding loans authorized by special act, they remain in existence.

Tax Limitations

Chapter 59, Section 21C of the General Laws, also known as Proposition 2 ½, imposes two separate limits on the annual tax levy of a city or town.

The primary limitation is that the tax levy cannot exceed 2½ percent of the full and fair cash value. If a city or town exceeds the primary limitation, it must reduce its tax levy by at least 15 percent annually until it is in compliance, provided that the reduction can be reduced in any year to not less than 7½ percent by majority vote of the voters, or to less than 7½ percent by two-thirds vote of the voters.

For cities and towns at or below the primary limit, a secondary limitation is that the tax levy cannot exceed the maximum levy limit for the preceding fiscal year as determined by the State Commissioner of Revenue by more than 2½ percent, subject to exceptions for property added to the tax rolls or property which has had an increase, other than as part of a general revaluation, in its assessed valuation over the prior year's valuation.

This "growth" limit on the tax levy may be exceeded in any year by a majority vote of the voters, but an increase in the secondary or growth limit under this procedure does not permit a tax levy in excess of the primary limitation, since the two limitations apply independently. In addition, if the voters vote to approve taxes in excess of the "growth" limit for the purpose of funding a stabilization fund, such increased amount may only be taken into account for purposes of calculating the maximum levy limit in each subsequent year if the board of selectmen of a town or the city council of a city votes by a two-thirds vote to appropriate such increased amount in such subsequent year to the stabilization fund.

The applicable tax limits may also be reduced in any year by a majority vote of the voters.

The State Commissioner of Revenue may adjust any tax limit “to counterbalance the effects of extraordinary, non-recurring events which occurred during the base year”.

Proposition 2 ½ further provides that the voters may exclude from the taxes subject to the tax limits and from the calculation of the maximum tax levy (a) the amount required to pay debt service on bonds and notes issued before November 4, 1980, if the exclusion is approved by a majority vote of the voters, and (b) the amount required to pay debt service on any specific subsequent issue for which similar approval is obtained. Even with voter approval, the holders of the obligations for which unlimited taxes may be assessed do not have a statutory priority or security interest in the portion of the tax levy attributable to such obligations. It should be noted that Massachusetts General Laws Chapter 44, Section 20 requires that the taxes excluded from the levy limit to pay debt service on any such bonds and notes be calculated based on the true interest cost of the issue. Accordingly, the Department of Revenue limits the amount of taxes which may be levied in each year to pay debt service on any such bonds and notes to the amount of such debt service, less a pro rata portion of any original issue premium received by the city or town that was not applied to pay costs of issuance.

Voters may also exclude from the Proposition 2½ limits the amount required to pay specified capital outlay expenditures or for the city or town’s apportioned share for certain capital outlay expenditures by a regional governmental unit. In addition, the city council of a city, with the approval of the mayor if required, or the board of selectmen or the town council of a town may vote to exclude from the Proposition 2½ limits taxes raised in lieu of sewer or water charges to pay debt service on bonds or notes issued by the municipality (or by an independent authority, commission or district) for water or sewer purposes, provided that the municipality’s sewer or water charges are reduced accordingly.

In addition, Proposition 2½ limits the annual increase in the total assessments on cities and towns by any county, district, authority, the Commonwealth or any other governmental entity (except regional school districts, the MWRA and certain districts for which special legislation provides otherwise) to the sum of (a) 2½ percent of the prior year’s assessments and (b) “any increases in costs, charges or fees for services customarily provided locally or for services subscribed to at local option”. Regional water districts, regional sewerage districts and regional veterans districts may exceed these limitations under statutory procedures requiring a two-thirds vote of the district’s governing body and either approval of the local appropriating authorities (by two-thirds vote in districts with more than two members or by majority vote in two-member districts) or approval of the registered voters in a local election (in the case of two-member districts). Under Proposition 2½ any State law to take effect on or after January 1, 1981 imposing a direct service or cost obligation on a city or town will become effective only if accepted or voluntarily funded by the city or town or if State funding is provided. Similarly, State rules or regulations imposing additional costs on a city or town or laws granting or increasing local tax exemptions are to take effect only if adequate State appropriations are provided. These statutory provisions do not apply to costs resulting from judicial decisions.

The Town of Andover has been in full compliance with Proposition 2 1/2 since its inception. Under the law as now written, the current and future levies may increase by up to 2 1/2% of the maximum levy limit for the previous fiscal year, plus by any amounts voted for override and debt exclusion, or "new" valuations or "real" valuation increases of 50% or more.

On May 17, 1994, the Town voted to exempt from the restrictions of Proposition 2½ the debt service from \$38,500,000 bonds authorized for the construction and reconstruction of the high school and two elementary schools and \$2,000,000 for the installation of a technology system.

On May 23, 2000, the Town voted to exempt from the restrictions of Proposition 2½ the debt service from \$34,455,000 bonds authorized for the construction of a new middle school and a new elementary school and from \$12,900,000 bonds authorized for the construction and reconstruction of the Public Safety Complex.

On January 25, 2011, the Town voted to exempt from the restrictions of Proposition 2½ the debt service from \$43,835,000 bonds authorized for the construction of the Bancroft Elementary School and \$825,000 for the feasibility study of such school. In addition, \$4,235,538 of the \$5,715,000 additional Bancroft School bonds authorized on February 11, 2013 have been approved for issuance as exempt from Proposition 2 ½.

The following table presents the Town's primary levy limits, its maximum levy limits, and its actual tax levies for the following fiscal years.

Tax Levies and Tax Levy Limits (1)

	Fiscal Year				
	2014	2013	2012	2011	2010
Primary Levy Limit (2)	\$ 171,013,153	\$ 170,067,998	\$ 169,962,631	\$ 165,413,789	\$ 170,941,431
Prior Fiscal Year Levy Limit	110,260,239	106,128,017	101,868,863	98,313,488	94,838,978
2.5% Levy Growth	2,756,506	2,653,200	2,546,722	2,457,837	2,370,974
New Growth (3)	1,563,740	1,479,022	1,712,432	1,097,538	1,103,536
Overrides	-	-	-	-	-
Growth Levy Limit	114,580,485	110,260,239	106,128,017	101,868,863	98,313,488
Debt Exclusions	3,278,578	2,349,085	2,947,458	2,860,362	3,037,491
Capital Expenditure Exclusions	-	-	-	-	-
Other Adjustments	-	-	-	-	-
Tax Levy Limit	117,859,063	112,609,324	109,075,475	104,729,225	101,350,979
Tax Levy	117,506,432	111,893,513	108,874,156	104,658,300	101,290,116
Unused Levy Capacity (4)	352,631	715,811	201,319	70,925	60,863
Unused Primary Levy Capacity (5)	\$ 56,432,668	\$ 59,807,759	\$ 63,834,614	\$ 63,544,926	\$ 72,627,943

(1) Source: Massachusetts Department of Revenue.

(2) 2.5% of assessed valuation.

(3) Allowed increase for new valuations (or required reduction) - certified by the Department of Revenue.

(4) Tax Levy Limit less Tax Levy.

(5) Primary Levy Limit less Growth Levy Limit.

Sale of Tax Receivables

Cities and towns are authorized to sell delinquent property tax receivables by public sale or auction, either individually or in bulk.

Pledged Taxes

Taxes on the increased value of certain property in designated development districts may be pledged for the payment of costs of economic development projects within such districts and may therefore be unavailable for other municipal purposes. The Town has not created any such districts.

Community Preservation Act

The Massachusetts Community Preservation Act (the "CPA") permits cities and towns that accept its provisions to levy a surcharge on its real property tax levy, dedicate revenue (other than state or federal funds), and to receive state matching funds for (i) the acquisition, creation, preservation, rehabilitation and restoration of land for recreational use, open space, and affordable housing and (ii) the acquisition, preservation, rehabilitation and restoration of historic resources. The provisions of the CPA must be accepted by the voters of the city or town at an election after such provisions have first been accepted by either a vote of the legislative body of the city or town or an initiative petition signed by 5% of its registered voters.

A city or town may approve a surcharge of up to 3% (but not less than 1% under certain circumstances) and may make an additional commitment of funds by dedicating revenue other than state or federal funds, provided that the total funds collected do not exceed 3% of the real property tax levy, less any exemptions adopted (such as an exemption for low-income individuals and families and for low and moderate-income senior citizens, an exemption for \$100,000 of the value of each taxable parcel of residential real property or \$100,000 of the value of each taxable parcel of class three, commercial property, and class four, industrial property as defined in Chapter 59, Section 2A of the General Laws, and an exemption for commercial and industrial properties in cities and towns with classified tax rates). In the event that the municipality shall no longer dedicate all or part of the additional funds to community preservation, the surcharge on the real property tax levy of not less than 1% shall remain in effect, provided that any such change must be approved pursuant to the same process as acceptance of the CPA. The surcharge is not counted in the total taxes assessed for the purpose of determining the permitted levy amount under Proposition 2½ (see "Tax Limitations" under "PROPERT TAXATION" above). A city or town may revoke its acceptance of the provisions of the CPA at any time after 5 years from the date of such acceptance and may change the amount of the

surcharge or the exemptions to the surcharge at any time, including reducing the surcharge to 1% and committing additional municipal funds as outlined above, provided that any such revocation or change must be approved pursuant to the same process as acceptance of the CPA.

Any city or town that accepts the provisions of the CPA will receive annual state matching grants to supplement amounts raised by its surcharge and dedication of revenue. The state matching funds are raised from certain recording and filing fees of the registers of deeds. Those amounts are deposited into a state trust fund and are distributed to cities and towns that have accepted the provisions of the CPA, which distributions are not subject to annual appropriation by the state legislature. The amount distributed to each city and town is based on a statutory formula and the total state distribution made to any city or town may not exceed 100% of the amount raised locally by the surcharge on the real property tax levy.

The amounts raised by the surcharge on taxes, the dedication of revenue and received in state matching funds are required to be deposited in a dedicated community preservation fund. Each city or town that accepts the provisions of the CPA is required to establish a community preservation committee to study the community preservation needs of the community and to make recommendations to the legislative body of the city or town regarding the community preservation projects that should be funded from the community preservation fund. Upon the recommendations of the committee, the legislative body of the city or town may appropriate amounts from the fund for permitted community preservation purposes or may reserve amounts for spending in future fiscal years, provided that at least 10% of the total annual revenues to the fund must be spent or set aside for open space purposes, 10% for historic resource purposes and 10% for affordable housing purposes.

The CPA authorizes cities and towns that accept its provisions to issue bonds and notes in anticipation of the receipt of surcharge and dedicated revenues to finance community preservation projects approved under the provisions of the CPA. Bonds and notes issued under the CPA are general obligations of the city or town and are payable from amounts on deposit in the community preservation fund. In the event that a city or town revokes its acceptance of the provisions of the CPA, the surcharge shall remain in effect until all contractual obligations incurred by the city or town prior to such revocation, including the payment of bonds or notes issued under the CPA, have been fully discharged.

In April 2007, Town Meeting voted to include a ballot question on the March 2008 town election warrant to see if the voters would accept the Act and approve a one percent surcharge. The vote did not pass.

TOWN FINANCES

Budget and Appropriation Process

Town Meeting: The annual appropriations of the Town are ordinarily made at the annual meeting which usually takes place in April. Appropriations may also be voted at special meetings. The Town has a finance committee, which submits reports and recommendations on proposed expenditures at Town Meetings. School committees are no longer autonomous with respect to school expenditures for current purposes. The school budget is limited to the amount appropriated by the Town Meeting.

Mandatory Items: Mandatory items, such as state and county assessments, the overlay for abatements, abatements in excess of overlays, principal and interest not otherwise provided for and final judgments are included in the tax levy whether or not included in the appropriations voted at town meeting.

Enterprises: The Town's water and sewer services are operated as enterprises, under Chapter 44 Section 53F1/2 of the General Laws. The budgets for the Water and Sewer Departments are voted on as separate items at each Annual Town Meeting. Any operating surpluses generated by the Departments are retained at the end of each fiscal year within the respective Departments. The Water and Sewer rates are set by the Board of Selectmen. The Town initiated the water and sewer enterprise funds in fiscal 1996.

Revenues: Revenues are not required to be set forth in the budget but estimated non-tax revenues are taken into account by the assessors in fixing the tax levy. (See "PROPERTY TAXATION-Tax Levy Computation".)

Operating Budget Trends

The following table sets forth the operating budgets for fiscal years 2010 through 2014 as voted by the Annual Town Meetings. Said budgets exclude Mandatory Items (see above) and expenditures for "non-operating" or extraordinary items authorized under "special" warrant articles at special town meetings.

	Fiscal 2010	Fiscal 2011	Fiscal 2012	Fiscal 2013	Fiscal 2014
General Government	\$ 6,945,208	\$ 7,291,446	\$ 8,572,150	\$ 8,523,509	\$ 9,138,645
Facility Maintenance (1)	5,604,186	5,687,425	5,498,500	6,490,514	6,822,481
Public Safety	14,009,136	14,149,992	14,762,088	14,549,741	15,461,780
Public Works	11,396,485	11,520,398	11,718,194	11,827,538	12,116,847
Library Services	2,576,389	2,595,173	2,427,022	2,432,589	2,522,582
Education(2)	60,223,073	62,373,345	63,229,080	66,320,015	69,241,837
Debt Service	13,312,391	12,002,493	12,112,692	11,585,101	13,035,323
Retirement	4,635,498	4,712,555	5,085,067	5,496,244	5,939,944
Unclassified (3)	13,180,500	14,206,741	15,116,613	14,852,113	15,205,653
Compensation Fund (4)	-	-	280,000	500,000	-
Reserve Fund	181,000	200,000	200,000	200,000	200,000
Total Expenditures	<u>\$ 132,063,866</u>	<u>\$ 134,739,568</u>	<u>\$ 139,001,406</u>	<u>\$ 142,777,364</u>	<u>\$ 149,685,092</u>

(1) Includes \$2,280,000 in additional funds to the capital project fund.

(2) Includes Greater Lawrence Technical School assessment.

(3) Includes health insurance.

(4) Reserve for Town (non-school) union and non-union salary adjustments.

Revenues

Property Taxes: Property taxes are a major source of revenue for the Town. The total amount levied is subject to certain limits prescribed by law; for a description of those limits, see "PROPERTY TAXATION--Tax Limitations", above. There is litigation in the Commonwealth claiming that the system of financing public education, with its heavy reliance on the property tax, is unconstitutional because it is based on the wealth of the municipality in which the student lives.

State Aid: The Town's state aid entitlement is based upon a number of different formulas, and while said formulas might indicate that a particular amount of state aid is owed, the amount of state aid actually paid is limited to the amount appropriated by the state legislature. The state annually estimates state aid but actual payments may vary from the estimate. The Town received \$10,984,162 in fiscal 2010, \$10,370,852 in fiscal 2011, \$10,330,506 in fiscal 2012 and \$11,296,315 in fiscal 2013.

Motor Vehicle Excise: An excise is imposed on the registration of motor vehicles (subject to exemptions) at a uniform rate of \$25 per \$1,000 of valuation. Valuations are determined by a statutory formula based on manufacturer's list price and year of manufacture. Bills not paid when due bear interest at 12 percent per annum. Provision is also made for the non-renewal of registration and operating licenses by the registrar of motor vehicles. In fiscal 2009, motor vehicle excise tax receipts totaled \$4,519,905. Motor vehicle excise tax receipts totaled \$4,472,856 in fiscal 2010. In fiscal 2011, motor vehicle excise tax receipts totaled \$4,531,283. Motor vehicle excise tax receipts totaled \$4,471,695 in fiscal 2012 and \$4,475,068 in fiscal 2013.

Water Rates and Services: It is the policy of the Town that the water utilities in the Town be self-sufficient and free from dependence on property tax dollars for their capital cost, operating expense, treatment expense and debt service. To reinforce this policy the Town established an enterprise fund for the water system effective July 1, 1995. Water revenues were \$6,741,635 in fiscal 2012 while total water expenses including debt service, insurance and pensions were \$6,065,570. Water revenues were \$7,175,798 in fiscal 2013 while total water expenses including debt service, insurance and pensions were \$6,491,333. The water rate was increased 10% effective September 1, 2013 from \$2.92 per 100 cubic feet to \$2.95 per 100 cubic feet. (See Appendix A for additional information.)

Sewer Rates and Services: It also is the policy that the sewer utilities in the Town be self-sufficient and free from dependence on property tax dollars for their capital costs, operating expenses, debt service and wastewater treatment expense. To reinforce this policy the Town established an enterprise fund for the sewer system effective July 1, 1996. Sewer revenues totaled \$5,350,617 in fiscal 2012, while sewer expenses, including debt service, pensions and insurance, totaled approximately \$5,149,916. Sewer revenues totaled \$5,579,700 in fiscal 2013, while sewer expenses, including debt service, pensions and insurance, totaled approximately \$5,327,224. Sewer rates are currently \$3.47 per 100 cubic feet of water used as of July 1, 2013. (See Appendix A for additional information.)

Room Occupancy Tax: Under this tax, local governments may tax the provision of hotel, motel and lodging house rooms at a rate not to exceed six percent (6%) (The rate was increased by 2% effective October 01, 2009 by Town Meeting action on August 31), of the cost of renting such rooms. The tax is paid by the operator of the hotel, motel or lodging house to the State Commissioner of Revenue, who in turn pays the tax back to the municipality in which the rooms are located in quarterly distributions. The Town has levied the full 6% as permitted under the law. The Town received distributions from this tax in fiscal 2012 in the amount of \$1,353,137 and in fiscal 2013 in the amount of \$1,526,835.

Other: Other major sources of revenue included departmental fees, fines, charges and investment income of \$6,259,658 in fiscal 2012 and \$5,144,854 in fiscal 2013.

State Distributions

In addition to grants for specified capital purposes (some of which are payable over the life of the bonds issued for the projects), the Commonwealth provides financial assistance to cities and towns for current purposes. Payments to cities and towns are derived primarily from a percentage of the State's personal income, sales and use, and corporate excise tax receipts, together with the net receipts from the State Lottery. A municipality's state aid entitlement is based on a number of different formulas, of which the "schools" and "lottery" formulas are the most important. Both of the major formulas tend to provide more state aid to poorer communities. The formulas for determining a municipality's state aid entitlement are subject to amendment by the state legislature and, while a formula might indicate that a particular amount of state aid is owed, the amount of state aid actually paid is limited to the amount appropriated by the state legislature. The state annually estimates state aid, but the actual state aid payments may vary from the estimate.

In the fall of 1986, both the State Legislature (by statute, repealed as of July 1, 1999) and the voters (by initiative petition) placed limits on the growth of state tax revenues. Although somewhat different in detail, each measure essentially limited the annual growth in state tax revenues to an average rate of growth in wages and salaries in the Commonwealth over the three previous calendar years. If not amended, the remaining law could restrict the amount of state revenues available for state aid to local communities.

Legislation was enacted in 1991 to help municipalities compensate for additional local aid reductions by the Commonwealth for fiscal year 1992. Under that law, municipalities were allowed to defer budgeting for teacher's summer compensation payable by the end of the fiscal years 1992 and 1993. Municipalities that chose to defer such amounts are required to amortize the resulting budget deficiency by raising at least one fifteenth of the deferred amount in each of the fiscal years 1997 through 2011, or in accordance with a more rapid amortization schedule. The Town did not utilize this provision.

State School Building Assistance Program

Under its school building assistance program, The Commonwealth of Massachusetts provides grants to cities, towns and regional school districts for school construction projects. Until July 26, 2004, the State Board of Education was responsible for approving grants for school projects and otherwise administering the program. Grant amounts ranged from 50% to 90% of approved project costs. Municipalities generally issued bonds to finance the entire project cost, and the Commonwealth disbursed the grants in equal annual installments over the term of the related bonds.

Pursuant to legislation which became effective on July 26, 2004, the state legislature created the Massachusetts School Building Authority (the "Authority") to finance and administer the school building assistance program. The Authority has assumed all powers and obligations of the Board of Education with respect to the program. In addition to certain other amounts, the legislation dedicates a portion of Commonwealth sales tax receipts to the Authority to finance the program.

Projects previously approved for grants by the State Board of Education are entitled to receive grant payments from the Authority based on the approved project cost and reimbursement rate applicable under the prior law. The Authority has paid and is expected to continue to pay the remaining amounts of the grants for such projects either in annual installments to reimburse debt service on bonds issued by the municipalities to finance such projects, or as lump sum payments to contribute to the defeasance of such bonds.

Projects on the priority waiting list as of July 1, 2004 are also entitled to receive grant payments from the Authority based on the eligible project costs and reimbursement rates applicable under the prior law. With limited exceptions, the Authority is required to fund the grants for such projects in the order in which they appear on the waiting list. Grants for any such projects that have been completed or substantially completed have been paid and are expected to continue to be paid by the Authority in lump sum payments, thereby eliminating the need for the Authority to reimburse interest expenses that would otherwise be incurred by the municipalities to permanently finance the Authority's share of such project costs. Interest on debt issued by municipalities prior to July 1, 2004 to finance such project costs, and interest on temporary debt until receipt of the grant, is included in the approved costs of such projects. Grants for any such projects that have not yet commenced or that are underway have been and are expected to continue to be paid by the Authority as project costs are incurred by the municipality pursuant to a project funding agreement between the Authority and the municipality eliminating the need for the municipality to borrow even on a temporary basis to finance the Authority's share of the project costs in most cases.

The Authority began accepting new applications for new projects on July 1, 2007. The range of reimbursement rates for such projects has been reduced to between 40% and 80% of approved project costs. The Authority recently promulgated new regulations with respect to the application and approval process for new projects. The Authority expects to pay grants for such projects as project costs are incurred pursuant to project funding agreements between the Authority and the municipalities. None of the interest expense incurred on debt issued by municipalities to finance their portion of the costs of new projects will be included in the approved project costs eligible for reimbursement.

The range of reimbursement rates for new project grant applications submitted to the Authority on or after July 1, 2007 has been reduced to between 40% and 80% of approved project costs. The Authority promulgated new regulations with respect to the application and approval process for projects submitted after July 1, 2007. The Authority expects to pay grants for such projects as project costs are incurred pursuant to project funding agreements between the Authority and the municipalities. None of the interest expense incurred on debt issued by municipalities to finance their portion of the costs of new projects will be included in the approved project costs eligible for reimbursement.

Investment of Town Funds

All funds of the Town, except for trust funds and funds of the Andover Retirement System, are invested in accordance with Section 55 of Chapter 44 of the Massachusetts General Laws (MGL). This section permits investment of available funds and bond and note proceeds, in term deposits and Certificates of Deposit of banks and trust companies, in obligations issued or unconditionally guaranteed by the federal government and an agency thereof with a maturity of one year or less, in repurchase agreements secured by federal or federal agency securities with a maturity of 90 days or less, in participation units in the Massachusetts Municipal Depository Trust (MMDT), or in shares in SEC-registered money market funds with the highest possible rating from at least one nationally recognized rating organization.

MMDT is an investment pool created by the Commonwealth. The State Treasurer is the sole Trustee, and the fund is managed under contract by Fidelity Management Company, of Boston under supervision of the State Treasurer's office. According to the State Treasurer the MMDT's investment policy is designed to maintain an average weighted maturity of 90 days or less and is limited to high-quality, readily marketable fixed income instruments, including U.S. government obligations and highly-rated corporate securities with maturities of one year or less.

Trust funds, unless otherwise provided by the donor, may be invested in accordance with Section 54 of Chapter 44 of the MGL, which permits a broader range of investments than Section 55, including any bonds or notes that are legal investments for savings banks in the Commonwealth. The restrictions imposed by Sections 54 and 55 do not apply to Town and town retirement systems.

Breakdown of the above investments may be obtained from the Town Treasurer. Pension funds are under the jurisdiction of the Andover Contributory Retirement System. Investments from the retirement system are discussed in Appendix A.

Audits

The Town's accounts were most recently audited for the fiscal year ended June 30, 2013 by Powers & Sullivan, Certified Public Accountants, a copy of which is attached hereto as Appendix A. Previous audits have been performed by Powers and Sullivan for fiscal years since 1996, copies of which are available upon request at the office of the Town Accountant.

The attached report speaks only as of its date, and only to the matters expressly set forth therein. The auditors have not been engaged to review this Official Statement or to perform audit procedures regarding the post-audit period, nor have the auditors been requested to give their consent to the inclusion of their report in Appendix A. Except as stated in their report, the auditors have not been engaged to verify the financial information set out in Appendix A and are not passing upon and do not assume responsibility for the sufficiency, accuracy or completeness of the financial information presented in that appendix.

Financial Statements

Set forth on the following pages for the Town of Andover are Governmental Funds Balance Sheets for fiscal years 2013 and 2012, combined balance sheet for fiscal year 2011, Statements of Revenues, Expenditures and Changes in Fund Balances for fiscal years 2013 and 2012, and a comparative statement of revenues, expenditures and changes in fund balances for the years ending June 30, 2009 through 2011. Said financials were extracted from the Town's audited financial statements.

TOWN OF ANDOVER, MASSACHUSETTS
GOVERNMENTAL FUNDS BALANCE SHEET AS OF JUNE 30, 2013 (1)

	General	Highway Construction	School Projects	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS:					
Cash and cash equivalents	\$ 13,378,930	\$ -	\$ 3,098,634	\$ 16,213,298	\$ 32,690,862
Investments	7,834,541	-	-	2,630,516	10,465,057
Receivables, Net of Uncollectibles:					
Real Estate and Personal Property Taxes	2,074,638	-	-	-	2,074,638
Real Estate and Tax deferrals	223,742	-	-	-	223,742
Tax Liens	1,634,203	-	-	-	1,634,203
Motor Vehicle and Other Excise Taxes	736,189	-	-	-	736,189
Departmental and Other	452,678	-	-	112,666	565,344
Intergovernmental	5,532,244	2,963,064	2,732,905	1,198,920	12,427,133
Due from other funds	3,795	-	-	-	3,795
Tax Foreclosures	250,160	-	-	-	250,160
TOTAL ASSETS	\$ 32,121,120	\$ 2,963,064	\$ 5,831,539	\$ 20,155,400	\$ 61,071,123
LIABILITIES AND FUND BALANCES:					
LIABILITIES					
Warrants Payable	\$ 1,075,116	\$ 341,074	\$ 2,129,912	\$ 272,147	\$ 3,818,249
Accrued Payroll	4,441,819	-	-	188,865	4,630,684
Tax Refunds Payable	952,000	-	-	-	952,000
Liabilities due depositors	27,503	-	-	-	27,503
Abandoned Property	14,460	-	-	-	14,460
Deferred Revenues	10,520,119	2,618,195	2,732,905	109,609	15,980,828
Due to other funds	-	3,795	-	-	3,795
TOTAL LIABILITIES	\$ 17,031,017	\$ 2,963,064	\$ 4,862,817	\$ 570,621	\$ 25,427,519
FUND BALANCES:					
Nonspendable	-	-	-	1,278,486	1,278,486
Restricted	1,092,228	-	968,722	18,306,293	20,367,243
Committed	100,734	-	-	-	100,734
Assigned	1,181,371	-	-	-	1,181,371
Unassigned	12,715,770	-	-	-	12,715,770
Total Fund Balances	15,090,103	-	968,722	19,584,779	35,643,604
Total Liabilities and Fund Balances	\$ 32,121,120	\$ 2,963,064	\$ 5,831,539	\$ 20,155,400	\$ 61,071,123

(1) Extracted from the audited financial statements of the Town.

TOWN OF ANDOVER, MASSACHUSETTS
GOVERNMENTAL FUNDS BALANCE SHEET AS OF JUNE 30, 2012 (1)

	General	School Projects	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS:				
Cash and cash equivalents	\$ 12,650,662	\$ 918,986	\$ 12,214,462	\$ 25,784,110
Investments	4,745,458	-	2,687,999	7,433,457
Receivables, Net of Uncollectibles:				
Real Estate and Personal Property Taxes	1,864,330	-	-	1,864,330
Real Estate and Tax deferrals	190,263	-	-	190,263
Tax Liens	1,302,120	-	-	1,302,120
Motor Vehicle and Other Excise Taxes	577,336	-	-	577,336
Departmental and Other	408,757	-	100,759	509,516
Intergovernmental	6,896,730	316,062	3,034,738	10,247,530
Due from other funds	231,331	-	-	231,331
Tax Foreclosures	250,160	-	-	250,160
TOTAL ASSETS	\$ 29,117,147	\$ 1,235,048	\$ 18,037,958	\$ 48,390,153
LIABILITIES AND FUND BALANCES:				
LIABILITIES				
Warrants Payable	\$ 464,300	\$ 1,093,727	\$ 1,183,031	\$ 2,741,058
Accrued Payroll	3,493,604	-	17,305	3,510,909
Tax Refunds Payable	1,139,000	-	-	1,139,000
Liabilities due depositors	27,503	-	-	27,503
Abandoned Property	14,460	-	-	14,460
Deferred Revenues	10,994,666	316,062	2,011,614	13,322,342
Due to other funds	-	-	231,331	231,331
Notes Payable	-	2,000,000	-	2,000,000
TOTAL LIABILITIES	\$ 16,133,533	\$ 3,409,789	\$ 3,443,281	\$ 22,986,603
FUND BALANCES:				
Nonspendable	-	-	1,274,750	1,274,750
Restricted	-	-	13,319,927	13,319,927
Committed	13,999	-	-	13,999
Assigned	2,197,122	-	-	2,197,122
Unassigned	10,772,493	(2,174,741)	-	8,597,752
Total Fund Balances	12,983,614	(2,174,741)	14,594,677	25,403,550
Total Liabilities and Fund Balances	\$ 29,117,147	\$ 1,235,048	\$ 18,037,958	\$ 48,390,153

(1) Extracted from the audited financial statements of the Town.

TOWN OF ANDOVER, MASSACHUSETTS
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUP AS OF JUNE 30, 2011 (1)

	General	Town Grants/ Other Revolving	Highway Construction	Nonmajor Governmental Funds	Totals (Memorandum Only)
ASSETS:					
Cash and Short-Term Investments	\$ 8,200,051	\$ 2,288,164	\$ -	\$ 6,625,392	\$ 17,113,607
Investments	4,599,959	2,570,754	-	-	7,170,713
Receivables, Net of Uncollectibles:					
Real Estate and Personal Property Taxes	1,809,460	-	-	-	1,809,460
Real Estate and Tax deferrals	166,283	-	-	-	166,283
Tax Liens	1,334,698	-	-	-	1,334,698
Motor Vehicle and Other Excise Taxes	518,137	-	-	-	518,137
Departmental and Other	319,975	87,857	-	-	407,832
Intergovernmental	8,202,072	-	3,937,262	552,625	12,691,959
Tax Foreclosures	250,160	-	-	-	250,160
TOTAL ASSETS	\$ 25,400,795	\$ 4,946,775	\$ 3,937,262	\$ 7,178,017	\$ 41,462,849
LIABILITIES AND FUND BALANCES:					
LIABILITIES					
Warrants Payable	\$ 541,845	\$ 46,220	\$ -	\$ 347,790	\$ 935,855
Accrued Payroll	3,035,142	-	-	72,671	3,107,813
Tax Refunds Payable	402,000	-	-	-	402,000
Abandoned Property	23,322	-	-	-	23,322
Other liabilities	26,859	-	-	-	26,859
Deferred Revenues	12,433,787	77,736	3,937,262	410,643	16,859,428
Notes Payable	-	-	-	1,613,000	1,613,000
TOTAL LIABILITIES	\$ 16,462,955	\$ 123,956	\$ 3,937,262	\$ 2,444,104	\$ 22,968,277
FUND BALANCES: (2)					
Nonspendable	-	-	-	1,244,874	1,244,874
Restricted	-	4,822,819	-	3,489,039	8,311,858
Committed	13,999	-	-	-	13,999
Assigned	817,053	-	-	-	817,053
Unassigned	8,106,788	-	-	-	8,106,788
Total Fund Balances	8,937,840	4,822,819	-	4,733,913	18,494,572
Total Liabilities and Fund Balances	\$ 25,400,795	\$ 4,946,775	\$ 3,937,262	\$ 7,178,017	\$ 41,462,849

(1) Extracted from the audited financial statements of the Town.

(2) Due to recent changes to GASB reporting requirements of fund balances, stabilizations fund balances are included in Unassigned Fund Balance.

TOWN OF ANDOVER, MASSACHUSETTS
STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE AS OF JUNE 30, 2013 (1)

	General	Highway Construction	School Projects	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:					
Real estate and personal property taxes, net of tax refunds	\$ 110,384,336	\$ -	\$ -	\$ -	\$ 110,384,336
Tax Liens	88,055	-	-	-	88,055
Motor vehicle excise taxes	4,745,068	-	-	-	4,745,068
Hotel/motel tax	1,526,835	-	-	-	1,526,835
Meals tax	547,235	-	-	-	547,235
Charges for services	-	-	-	126,718	126,718
Penalties and Interest on taxes	298,550	-	-	381,835	680,385
Fees	-	-	-	-	-
Licenses and Permits	2,334,522	-	-	-	2,334,522
Fines and forfeitures	-	-	-	1,100	1,100
Intergovernmental	24,894,505	846,651	5,273,236	5,424,640	36,439,032
Departmental and other	3,100,973	-	-	7,437,796	10,538,769
Contributions	-	-	-	499,627	499,627
Investment Income	40,893	-	-	11,506	52,399
TOTAL REVENUES	\$ 147,960,972	\$ 846,651	\$ 5,273,236	\$ 13,883,222	\$ 167,964,081
EXPENDITURES:					
Current:					
General Government	7,083,243	-	-	499,397	7,582,640
Public Safety	14,479,482	-	-	1,481,601	15,961,083
Education	66,434,651	-	-	8,908,034	75,342,685
Municipal Services	10,491,489	846,651	-	145,976	11,484,116
Community Services	1,614,833	-	-	1,358,140	2,972,973
Library	2,466,793	-	-	65,789	2,532,582
Pension Benefits	18,565,841	-	-	-	18,565,841
Property and liability insurance	717,613	-	-	-	717,613
Employee Benefits	14,211,500	-	-	-	14,211,500
State and County Charges	2,468,820	-	-	-	2,468,820
Capital outlay	-	-	16,478,073	5,526,883	22,004,956
Debt Service:	-	-	-	-	-
Principal	5,813,900	-	-	-	5,813,900
Interest	1,871,364	-	-	-	1,871,364
TOTAL EXPENDITURES	\$ 146,219,529	\$ 846,651	\$ 16,478,073	\$ 17,985,820	\$ 181,530,073
Excess (Deficit) of Revenues Over (Under) Expenditures	1,741,443	-	(11,204,837)	(4,102,598)	(13,565,992)
Other Financing Sources (Uses):					
Issuance of bonds and notes	-	-	14,000,000	6,555,000	20,555,000
Issuance of refunding bonds	3,423,300	-	-	-	3,423,300
Premium from issuance of bonds	1,657,247	-	-	-	1,657,247
Premium from issuance of refunding bonds	599,483	-	-	-	599,483
Payment to refunded bonds escrow agent	(3,957,244)	-	-	-	(3,957,244)
Transfers in	1,659,760	-	348,300	2,881,000	4,889,060
Transfers out	(3,017,500)	-	-	(343,300)	(3,360,800)
TOTAL OTHER FINANCING SOURCES (USES)	365,046	-	14,348,300	9,092,700	23,806,046
Net Change in Fund Balances	2,106,489	-	3,143,463	4,990,102	10,240,054
FUND BALANCES, BEGINNING OF YEAR	12,983,614	-	(2,174,741)	14,594,677	25,403,550
FUND BALANCES, AT END OF YEAR	\$ 15,090,103	\$ -	\$ 968,722	\$ 19,584,779	\$ 35,643,604

(1) Extracted from the audited financial statements of the Town.

TOWN OF ANDOVER, MASSACHUSETTS
STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE AS OF JUNE 30, 2012 (1)

	General	School Projects	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:				
Real estate and personal property taxes, net of tax refunds	\$ 107,820,244	\$ -	\$ -	\$ 107,820,244
Tax Liens	264,004	-	-	264,004
Motor vehicle excise taxes	4,471,696	-	-	4,471,696
Hotel/motel tax	1,353,137	-	-	1,353,137
Meals tax	517,177	-	-	517,177
Charges for services	-	-	146,950	146,950
Penalties and Interest on taxes	416,902	-	-	416,902
Fees	-	-	342,399	342,399
Licenses and Permits	1,536,310	-	-	1,536,310
Fines and foreitures	-	-	1,100	1,100
Intergovernmental	23,611,256	1,556,234	8,482,473	33,649,963
Departmental and other	3,065,363	-	7,327,166	10,392,529
Contributions	-	-	906,799	906,799
Investment Income	207,604	-	98,497	306,101
TOTAL REVENUES	\$ 143,263,693	\$ 1,556,234	\$ 17,305,384	\$ 162,125,311
EXPENDITURES:				
Current:				
General Government	6,210,552	-	867,677	7,078,229
Plant and facilities	4,498,557	-	531,026	5,029,583
Public Safety	13,980,063	-	1,393,679	15,373,742
Education	62,937,482	-	8,264,293	71,201,775
Public Works	4,592,741	-	2,118,373	6,711,114
Community Services	1,636,528	-	1,237,911	2,874,439
Library	2,390,690	-	156,708	2,547,398
Pension Benefits	17,504,035	-	-	17,504,035
Property and liability insurance	827,013	-	-	827,013
Employee Benefits	15,134,416	-	-	15,134,416
State and County Charges	2,433,163	-	-	2,433,163
Capital outlay	-	4,816,575	2,913,308	7,729,883
Debt Service:	-	-	-	-
Principal	6,194,000	-	-	6,194,000
Interest	1,847,422	-	-	1,847,422
TOTAL EXPENDITURES	\$ 140,186,662	\$ 4,816,575	\$ 17,482,975	\$ 162,486,212
Excess (Deficit) of Revenues Over (Under) Expenditures	3,077,031	(3,260,341)	(177,591)	(360,901)
Other Financing Sources (Uses):				
Issuance of bonds and notes	-	1,342,000	4,024,000	5,366,000
Issuance of refunding bonds	4,564,700	-	-	4,564,700
Premium from issuance of bonds	239,602	-	-	239,602
Premium from issuance of refunding bonds	446,698	-	-	446,698
Payment to refunded bonds escrow agent	(4,986,695)	-	-	(4,986,695)
Transfers in	1,950,838	-	1,291,400	3,242,238
Transfers out	(1,246,400)	-	(356,264)	(1,602,664)
TOTAL OTHER FINANCING SOURCES (USES)	968,743	1,342,000	4,959,136	7,269,879
Net Change in Fund Balances	4,045,774	(1,918,341)	4,781,545	6,908,978
FUND BALANCES, BEGINNING OF YEAR	8,937,840	(256,400)	9,813,132	18,494,572
FUND BALANCES, AT END OF YEAR	\$ 12,983,614	\$ (2,174,741)	\$ 14,594,677	\$ 25,403,550

(1) Extracted from the audited financial statements of the Town.

**TOWN OF ANDOVER, MASSACHUSETTS
COMBINED STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE-GENERAL FUND(1)**

	June 30,		
	2009	2010	2011
REVENUES:			
Real Estate Taxes	\$ 96,792,126	\$ 100,472,493	\$ 103,357,190
Motor Vehicle Excise	4,519,908	4,472,857	4,589,014
Tax Liens and Foreclosures	860,090	962,298	250,075
Departmental	2,756,344	2,936,968	2,917,888
Intergovernmental	22,412,380	22,369,078	22,167,301
Earnings on Investments	511,714	205,191	230,188
Licenses and Permits	1,200,461	1,523,489	1,506,207
Penalties and Interest on taxes	303,184	286,866	409,888
Other Revenues		136,239	1,767,064
TOTAL REVENUES	\$ 129,356,207	\$ 133,365,479	\$ 137,194,815
EXPENDITURES:			
General Government	3,329,231	4,830,344	4,939,219
Public Safety	14,258,928	13,749,772	14,258,639
Public Works	6,016,573	5,052,056	5,714,338
Municipal Maintenance	4,379,318	4,243,392	4,501,505
Community Development	1,596,634	-	-
Community Service	1,716,451	1,624,624	1,656,498
Schools	59,367,142	60,442,671	62,350,888
Pension Benefits	14,999,567	15,577,594	16,231,461
Debt Service	8,321,453	7,901,249	7,508,537
Library	2,608,483	2,494,766	2,529,870
State and County Charges	2,871,728	3,072,718	2,860,658
Employee Benefits	12,023,030	13,438,023	14,919,349
Other Expenditures	826,980	485,701	734,996
TOTAL EXPENDITURES	\$ 132,315,518	\$ 132,912,910	\$ 138,205,958
Excess (Deficit) of Revenues			
Over (Under) Expenditures	(2,959,311)	452,569	(1,011,143)
Other Financing Sources (Uses):			
Bond Issuance Cost	-	-	-
Refunding Bonding Proceeds	-	7,936,000	-
Interfund Transfers	-	-	-
Premium from issuance of bonds	-	892,842	-
Payments to refunded bond escrow agent	-	(8,951,608)	-
Operating Transfers in	3,183,045	2,103,947	2,061,173
Operating Transfers out (2)	(1,780,000)	(1,482,101)	(1,329,412)
Enterprise fund debt service transfer in	-	-	-
TOTAL OTHER FINANCING			
SOURCES (USES) (2)	1,403,045	499,080	731,761
Excess of Revenues and Other			
Sources Less Expenditures and			
Other Uses (2)	(1,556,266)	951,649	(279,382)
FUND BALANCES, BEGINNING OF FY	5,062,815	3,506,549	9,217,222
FUND BALANCES, FISCAL YEAR END (2)	\$ 3,506,549	\$ 4,458,198	\$ 8,937,840

(1) Extracted from the audited financial statements of the Town.

(2) Increase in General Fund Balance from ending balance in FY2010 to beginning balance in FY2011 is attributable to the new requirements of fund balances

Unassigned/Undesignated General Fund Balances and Free Cash

Under Massachusetts law an amount known as "free cash" is certified as of the beginning of each fiscal year by the State Bureau of Accounts and this, together with certain subsequent tax receipts, is used as the basis for subsequent appropriations from available funds, which are not required to be included in the annual tax levy.

The following table presents a summary of the Town's undesignated general fund balances, free cash position, and transfers from free cash to reduce the following year's tax levy for the last five fiscal years:

Under the Uniform System of Accounting prescribed by The Commonwealth of Massachusetts Department of Revenue, subject to certain adjustments, free cash is defined as Surplus Revenue (unreserved general fund balance in the Town's case) less uncollected and overdue property taxes from prior years. The table below sets forth the amount of Free Cash for the following fiscal years.

The following table sets forth the trend in the Town's unassigned/undesignated general fund balance and free cash at the end of the last five fiscal years.

Fiscal Year	Unassigned/Undesignated General Fund Balance (1)	Free Cash
2013	\$ 12,715,770	\$ 4,000,000 (Est.)
2012	10,772,493	4,073,271
2011	8,106,788	1,239,055
2010	3,250,042	1,609,854
2009	3,015,527	1,484,874

(1) Source: Audited Financial Statements. Fiscal 2013, 2012 and fiscal 2011 figures are unassigned fund balances.

Stabilization Fund

The Town maintains a stabilization fund which is accounted for in the Trust Funds. Funded by an annual appropriation, the stabilization fund plus interest income may be appropriated at an annual or special town meeting for any municipal purpose.

The table below lists the Stabilization Fund balances as of the end of the following fiscal years. Fiscal 2013 operation budget appropriated \$232,000 to the stabilization fund and a transfer of \$2,000,000 was made to this fund from free cash in April 2013.

Fiscal Year	Stabilization Fund
2013	\$ 7,099,541
2012	4,745,454
2011 (1)	4,599,359
2010	4,433,141
2009	4,279,570

(1) Due to the changes in GASB fund balance reporting practices, Stabilization Fund Balances are included in Unassigned General Fund Balance.

Additional Funds Available for Appropriation

The Town maintains an additional fund which is accounted for in the Trust Funds the balances of which plus interest income may be appropriated at an annual or special town meeting for any municipal purpose. The William Wood Fund, so-called, which was established as an unrestricted gift in 1973, had a balance at June 30, 2012 of \$1,278,921. Phillips Academy also contributes approximately \$165,486 annually to the Town as general fund revenue. At the 2013 Annual Town Meeting the Town voted to create two new accounts to which the balance of the above mentioned funds was appropriated. The Town established a Senior Center Programs fund and a Youth Center Building fund, each with a balance of approximately \$700,000 as of June 30, 2013.

Tax Increment Financing for Development Districts

Under recent legislation, cities and towns are authorized to establish development districts to encourage increased residential, industrial and commercial activity. All or a portion of the taxes on growth in assessed value in such districts may be pledged and used solely to finance economic development projects pursuant to the city or town's development program for the district. This includes pledging such "tax increments" for the payment of bonds issued to finance such projects. As a result of any such pledge, tax increments raised from new growth properties in development districts are not available for other municipal purposes. Tax increments are taken into account in determining the total taxes assessed for the purpose of calculating the maximum permitted tax levy under Proposition 2 ½ (see "Tax Limitations" under "PROPERTY TAXATION" above.) The Town has not approved and has no current plans to approve any development districts at this time.

INDEBTEDNESS

Authorization Procedure and Limitations

Bonds and notes are generally authorized on behalf of the Town by a two-thirds vote of the Town Meeting. Borrowings for certain purposes require state administrative approval. Temporary loans in anticipation of certain state and county reimbursements are generally authorized by majority vote but provision is made for temporary loans in anticipation of current revenues and federal grants and for other purposes in certain circumstances without town meeting authorization.

Serial bonds and notes are authorized by a two-thirds vote of the town meeting. Provision is made in some cities and towns for a referendum on the borrowing authorization if there is a timely filing of a petition bearing the requisite number of signatures. Refunding bonds and notes are authorized by the selectmen. Borrowings for some purposes require State administrative approval.

When serial bonds or notes have been authorized, bond anticipation notes may be issued by the officers authorized to issue the serial bonds or notes. Temporary debt in anticipation of the revenue of the fiscal year in which the debt is incurred or in anticipation of authorized federal and state aid generally may be incurred by the treasurer with the approval of the selectmen.

The general debt limit of the Town of Andover consists of a normal debt limit and a double debt limit. The normal debt limit is 5 percent of the valuation of taxable property as last equalized by the State Department of Revenue. The Town can authorize debt up to this amount without State approval. It can authorize debt up to twice this amount (the double debt limit) with state administrative approval.

There are many categories of general obligation debt which are exempt from and do not count against the General Debt Limit. Among others, these exempt categories include revenue anticipation notes and grant anticipation notes; emergency loans; loans exempted by special laws; certain school bonds, sewer bonds, solid waste disposal facility bonds and economic development bonds supported by tax increment financing; and subject to special debt limits, bonds for water (limited to 10 percent of equalized valuation), housing, urban renewal and economic development (subject to various debt limits), and electric, gas, community antenna television systems, and telecommunications systems (subject to separate limits). Revenue bonds are not subject to these debt limits. The General Debt Limit and the special debt limit for water bonds apply at the time the debt is authorized. The other special debt limits generally apply at the time the debt is incurred.

Types of Obligations

General Obligations. Massachusetts cities and towns are authorized to issue general obligation indebtedness of these types:

Serial Bonds and Notes. These are generally required to be payable in annual principal amounts beginning no later than the end of the next fiscal year commencing after the date of issue and ending within the terms permitted by law. A level debt service schedule, or a schedule that provides for a more rapid amortization of principal than level debt service, is permitted. The principal amounts of certain economic development bonds supported by tax increment financing may be payable in equal, diminishing or increasing amounts beginning within 5 years after the date of issue. The maximum terms of serial bonds and notes vary from one year to 40 years, depending on the purpose of the issue. The maximum terms permitted are set forth in the statutes. In addition, for many projects, the maximum term may be determined in accordance with useful life guidelines promulgated by the State Department of Revenue ("DOR"). Serial bonds and notes may be issued for the purposes set forth in the statutes. In addition, serial bonds and notes may be issued for any other public work improvement or asset not specifically listed in the Statutes that has a useful life of at least 5 years. Bonds or notes may be made callable and redeemed prior to their maturity, and a redemption premium may be paid. Refunding bonds or notes may be issued subject to the maximum applicable term measured from the date of the original bonds or notes and must produce present value savings over the debt service of the refunded bonds. Generally, the first required annual payment of principal of the refunding bonds cannot be later than the first principal payment of any of the bonds or notes being refunded thereby, however, principal payments made before the first principal payment of any of the bonds or notes being refunded thereby may be in any amount.

Serial bonds may be issued as "qualified bonds" with the approval of the state Municipal Finance Oversight Board composed of the State Treasurer, the State Auditor, the Attorney General and the Director of Accounts, subject to such conditions and limitations (including restrictions on future indebtedness) as may be required by the Board. Qualified bonds may mature not less than 10 nor more than 30 years from their dates and are not subject to the amortization requirements described above. The State Treasurer is required to pay the debt service on qualified bonds and thereafter to withhold the

amount of the debt service paid by the State from state aid or other state payments; administrative costs and any loss of interest income to the State are to be assessed upon the city or town.

Tax Credit Bonds or Notes. Subject to certain provisions and conditions, the officers authorized to issue bonds or notes may designate any duly authorized issue of bonds or notes as "tax credit bonds" to the extent such bonds and notes are otherwise permitted to be issued with federal tax credits or other similar subsidies for all or a portion of the borrowing costs. Tax credit bonds may be made payable without regard to the annual installments required by any other law, and a sinking fund may be established for the payment of such bonds. Any investment that is part of such a sinking fund may mature not later than the date fixed for payment or redemption of the applicable bonds.

Bond Anticipation Notes. These generally must mature within two years of their original dates of issuance but may be refunded from time to time for a period not to exceed five years from their original dates of issuance, provided that for each year that the notes are refunded beyond the second year they must be paid in part from revenue funds in an amount at least equal to the minimum annual payment that would have been required if the bonds had been issued at the end of the second year. For certain school projects, however, notes may be refunded from time to time for a period not to exceed seven years without having to pay any portion of the principal of the notes from revenue funds. The maximum term of bonds issued to refund bond anticipation notes is measured (except for certain school projects) from the date of the original issue of the notes.

Revenue Anticipation Notes. These are issued to meet current expenses in anticipation of taxes and other revenues. They must mature within one year but, if payable in less than one year, may be refunded from time to time up to one year from the original date of issue.

Grant Anticipation Notes. These are issued for temporary financing in anticipation of federal grants and state and county reimbursements. They must generally mature within two years, but may be refunded from time to time as long as the municipality remains entitled to the grant or reimbursement.

Revenue Bonds. Cities and towns may issue revenue bonds for solid waste disposal facilities and for projects financed under the Commonwealth's Water Pollution Abatement or Drinking Water Revolving Loan Programs and for certain economic development projects supported by the increment financings. In addition, cities and towns having electric departments may issue electric revenue bonds, and notes in anticipation of such bonds, subject to the approval of the State Department of Telecommunications and Energy.

Direct Debt Summary As of June 30, 2013 (1)

General Obligation Bonds:		
Outstanding:		
Water (2)	\$ 9,991,248	
Sewer (3)	23,584,850	
School (4)	41,247,800	
General (5)	17,232,200	
Land Acquisition	<u>5,242,100</u>	
Total Long Term Outstanding		\$ 97,298,198
This Issue		27,791,000
Short Term Indebtedness:		
Bond Anticipation Notes (6)	\$ 12,000,000	
Less:		
To Be Retired with Bond Proceeds	<u>(12,000,000)</u>	
Total Short Term Outstanding		\$ -
Total Direct Debt		<u><u>\$ 125,089,198</u></u>

(1) \$31,640,800 has been exempted from the provisions of Proposition 2 ½.

(2) Self-supporting through enterprise fund revenues. Subject to a special separate debt limit of 10% of the Town's equalized valuation or \$729,290,660.

(3) Self-supporting through enterprise fund revenues. Subject to the Town's general debt limit.

(4) Subject to the Town's general debt limit, except for \$19,385,008 which is outside the debt limit. The unpaid balance of school construction grants payable over the life of outstanding school debt is estimated at \$5,796,441. Said grant payments are applicable to both interest and principal.

(5) Subject to the Town's general debt limit, except for \$760,000 which is outside the debt limit. \$4,544,000 is exempt from the limits on Proposition 2 ½.

(6) Payable March 7, 2014.

Debt Ratios

The following table sets forth the ratio of debt to equalized valuation and per capita debt ratios at the end of the five most recent fiscal years. The table considers the principal amount of general obligation bonds and serial notes of the Town of Andover. The table does not deduct anticipated state grant payments applicable to the principal amount of outstanding bonds or debt that may be supported in whole, or part, by non-tax revenues. (See "Direct Debt Summary").

Fiscal Year End	General Obligation Bonds Outstanding	2010 Federal Census Population	Local Assessed Valuation	Per Capita Debt	Ratio Debt To Assessed Valuation
2013	\$ 97,298,198	33,201	\$ 6,802,719,926	\$ 2,931	1.43 %
2012	83,968,983	33,201	6,798,505,246	2,529	1.24
2011	86,828,019	33,201	6,616,551,562	2,615	1.31
2010	87,909,402	33,201	6,837,657,244	2,648	1.29
2009	92,614,422	33,201	7,160,470,363	2,790	1.29

Principal Payments by Purpose

The following table sets forth the principal payments by purpose on outstanding bonds of the Town. As indicated in the table, of the total \$97,298,198 bonds outstanding, \$42,813,572 or approximately 44% of the total outstanding are to be paid by the end of fiscal 2018 and \$73,566,092 or approximately 76% of the debt will be retired at the end of fiscal 2023.

General Obligation Debt Principal Payments by Purpose as of June 30, 2013 (1)

Fiscal Year	School (2)	Water (3)	Sewer (4)	General (5)	Land Acquisition	Total Outstanding
2014	\$ 4,266,000	\$ 749,629	\$ 1,970,500	\$ 2,018,500	\$ 415,000	\$ 9,419,629
2015	4,143,000	752,570	1,965,500	1,903,500	410,000	9,174,570
2016	4,094,000	750,263	1,958,300	1,885,200	401,850	9,089,613
2017	3,160,800	754,756	1,925,200	1,804,000	400,000	8,044,756
2018	2,476,000	760,004	1,885,000	1,579,000	385,000	7,085,004
2019	2,453,000	740,358	1,900,000	1,432,000	380,000	6,905,358
2020	2,285,000	740,819	1,935,000	1,275,000	375,000	6,610,819
2021	2,145,000	746,391	1,920,000	1,215,000	375,000	6,401,391
2022	1,990,000	717,076	1,875,000	940,000	375,000	5,897,076
2023	1,980,000	657,876	1,450,000	475,000	375,000	4,937,876
2024	1,610,000	658,792	1,220,000	430,000	370,000	4,288,792
2025	1,605,000	529,229	885,350	420,000	315,250	3,754,829
2026	1,600,000	515,987	800,000	405,000	255,000	3,575,987
2027	1,400,000	522,269	800,000	370,000	200,000	3,292,269
2028	1,360,000	192,238	510,000	310,000	135,000	2,507,238
2029	1,170,000	72,991	235,000	250,000	30,000	1,757,991
2030	1,025,000	35,000	110,000	205,000	25,000	1,400,000
2031	930,000	35,000	110,000	155,000	20,000	1,250,000
2032	830,000	35,000	75,000	120,000	-	1,060,000
2033	725,000	25,000	55,000	40,000	-	845,000
Total	\$ 41,247,800	\$ 9,991,248	\$ 23,584,850	\$ 17,232,200	\$ 5,242,100	\$ 97,298,198

- (1) Excludes temporary loans, overlapping debt, lease purchase agreements, unfunded pension liability and other post-employment benefits liability.
- (2) Subject to the Town's general debt limit, except for \$19,385,008 which is outside the debt limit. The unpaid balance of school construction grants payable over the life of outstanding school debt is estimated at \$5,796,441. Said grant payments, which are applicable to both interest and principal, are subject to annual appropriation by the State legislature.
- (3) Self-supporting through enterprise fund revenues. Subject to a special separate debt limit of 10% of the Town's equalized valuation or \$729,290,660.
- (4) Self-supporting through enterprise fund revenues. Subject to the Town's general debt limit.
- (5) Subject to the Town's general debt limit, except for \$760,000 which is outside the debt limit. \$4,544,000 is exempt from the limits on Proposition 2 ½.

Debt Service Requirements

The following table sets forth the required principal and interest payments on all general obligation debt of the Town of Andover as of June 30, 2013.

GENERAL OBLIGATION BONDS AND SERIAL NOTES Debt Service Requirements as of June 30, 2013 (1)

Fiscal Year	Total Principal	Total Interest	Total Principal and Interest	MSBA Subsidy	Net Debt Service
2014	\$ 9,419,629	\$ 3,360,690	\$ 12,780,319	\$ (1,551,447)	\$ 11,228,872
2015	9,174,570	3,014,605	12,189,175	(1,551,447)	10,637,728
2016	9,089,613	2,692,641	11,782,254	(1,551,447)	10,230,807
2017	8,044,756	2,387,984	10,432,740	(1,142,100)	9,290,640
2018	7,085,004	2,135,143	9,220,147	-	9,220,147
2019	6,905,358	1,866,064	8,771,422	-	8,771,422
2020	6,610,819	1,620,021	8,230,840	-	8,230,840
2021	6,401,391	1,388,246	7,789,637	-	7,789,637
2022	5,897,076	1,161,677	7,058,753	-	7,058,753
2023	4,937,876	958,233	5,896,109	-	5,896,109
2024	4,288,792	796,467	5,085,259	-	5,085,259
2025	3,754,829	648,918	4,403,747	-	4,403,747
2026	3,575,987	510,016	4,086,003	-	4,086,003
2027	3,292,269	380,015	3,672,284	-	3,672,284
2028	2,507,238	266,657	2,773,895	-	2,773,895
2029	1,757,991	187,336	1,945,327	-	1,945,327
2030	1,400,000	130,956	1,530,956	-	1,530,956
2031	1,250,000	87,316	1,337,316	-	1,337,316
2032	1,060,000	49,969	1,109,969	-	1,109,969
2033	845,000	23,238	868,238	-	868,238
Total	<u>\$ 97,298,198</u>	<u>\$ 23,666,192</u>	<u>\$ 120,964,390</u>	<u>\$ (5,796,441)</u>	<u>\$ 115,167,949</u>

(1) Excludes temporary loans, overlapping debt, lease purchase agreements, unfunded pension liability and other post-employment benefits liability.

Authorized Unissued Debt and Prospective Financing

Following the delivery of the Bonds, the Town will have \$22,094,678 of authorized and unissued debt as follows:

Purpose	Authorization
Land Acquisition	\$ 1,200,000
Sewer (1)	2,550,000
School (2)	7,394,678
Landfill Closure (3)	7,570,000
Water	1,830,000
General Government	1,550,000
Totals	<u>\$ 22,094,678</u>

- (1) Any future financing is expected to be fully-supported by sewer or water user charges and betterment assessments.
- (2) The Town expects to receive reimbursement from the Massachusetts School Building Authority for approximately 36.7% of the project costs for the design and construction of the Bancroft School. This project was authorized on December 6, 2010 in the total amount of \$43,835,000. On February 11, 2013, the Town authorized an additional \$5,715,000 in order to complete this project.
- (3) The Town expects the majority of this project to be financed through the Massachusetts Water Pollution Abatement Trust.

Overlapping Debt

The Town of Andover is a member of the Greater Lawrence Regional Vocational Technical High School District, the Merrimack Valley Regional Transit Authority and the Greater Lawrence Sanitary District. The following table sets forth the outstanding bonded debt, exclusive of temporary loans in anticipation of bonds or current revenue, of each of the overlapping entities as of June 30, 2013, the Town's estimated gross share of such debt, and fiscal 2013 dollar assessments.

Overlapping Entity	Outstanding Debt as of June 30, 2013	Andover's Estimated Share(1)	Fiscal 2013 Dollar Assessment(2)
Greater Lawrence Regional Vocational Technical School District(3)	\$ 24,610,000	0.8 %	\$ 196,880
Merrimack Valley Regional Transit Authority(4)	-	0.0	
Greater Lawrence Sanitary District(5)	31,147,906	7.1	2,311,508

- (1) Estimated share based on debt service only.
- (2) Estimated dollar assessment based upon total net operating expenses, inclusive (where applicable) of debt service.
- (3) SOURCE: Greater Lawrence Regional Vocational Technical High School District. Towns may organize regional school districts to carry out general or specialized educational functions. Pursuant to special laws a number of cities may also participate in regional school district, primarily for vocational education. The operating expenses and debt service of regional school districts are apportioned among the member municipalities in accordance with the agreements establishing the district subject to the provisions of the Education Reform Act of 1993. The municipal share is based on the ratio of that member's pupil enrollment to the total pupil enrollment from all the member municipalities in the regional school district as of October 1 of the year proceeding the year for which the apportionment is being determined.
- (4) SOURCE: Merrimack Valley Regional Transit Authority. These are transportation authorities which have been established outside the Boston area. It has been state practice in recent years to provide a portion of their net cost of service, including debt service on their bonds. In addition to the other sources of funds provided by Massachusetts General Laws Chapter 161B from which the regional transit authorities may obtain monies for the payment of the principal of and interest on their obligations, such payment will be further secured by the Commonwealth, which is required to pay to the regional transit authorities amounts duly certified by the administrator of the authority as necessary to pay any principal or interest due or about to come due for such purpose. The remainder of the net cost of service is assessed upon the member cities and towns in proportion to the amount of the net cost incurred on routes within each city or town. The aggregate amount of such assessments is generally not permitted to increase by more than 2.5 percent per year. (See "Tax Limitations" under "PROPERTY TAXATION" above. The Authority currently has no authorized unissued debt.
- (5) SOURCE: Greater Lawrence Sanitary District. Each member community pays for its proportionate share of the District's operating costs based upon the percent of wastewater received from each respective community. Member communities include Andover, Lawrence, Methuen and North Andover and Salem, New Hampshire by agreement.

CONTRACTUAL OBLIGATIONS

Obligations to make payments on account of municipal contracts are generally limited to currently available appropriations. A Massachusetts city or town has general statutory authority to enter into contracts for the exercise of any of its corporate powers for any period of time deemed to serve its best interests, but in most cases only when funds are available for the first fiscal year; obligations for succeeding fiscal years are in those cases expressly subject to availability and appropriation of funds. Specific authority exists in relatively few cases for long-term contractual obligations that are not subject to annual appropriation, including contracts for refuse disposal (20 year maximum term) and certain contracts by municipal electric departments. Municipalities may also enter into long-term contracts in aid of housing and renewal projects. There may be implied authority to make other long-term contracts required to carry out authorized municipal functions, such as contracts to purchase water from private water companies.

Pursuant to the Home Rule Amendment to the Massachusetts Constitution, cities and towns may also be empowered to make other contracts and leases.

The Town of Andover, at present, has a limited number of contractual obligations. The Town has a solid waste disposal agreement to dispose of their municipal waste through June 30, 2014 at the Waste Management waste-to-energy plant in North Andover, Massachusetts. The agreement does not contain any guaranteed annual tonnage provisions (formally known as GAT) so it is strictly a pay-as-you-go contract for the actual tons delivered.

The second significant contract is the refuse collection and hauling contract with Allied Waste (formerly BFI) which is a one year extension contract. The Town has budgeted \$983,508 for this contract in fiscal 2014.

The third significant contract is the recycling contract with Integrated Paper Recyclers which is also in the third year of a three year contract with the two year option to extend. Town budgeted \$342,792 for this contract in fiscal 2014.

RETIREMENT PLAN

The Massachusetts General Laws provide for the establishment of contributory retirement systems for state employees, for teachers and for county, city and town employees other than teachers. Teachers are assigned to a separate statewide teachers' system and not to the city and town systems. For all employees other than teachers, this law is subject to acceptance in each city and town. Substantially all employees of an accepting city or town are covered. If a town has a population of less than 10,000 when it accepts the statute, its non-teacher employees participate through the county system and its share of the county cost is proportionate to the aggregate annual rate of regular compensation of its covered employees. In addition to the contributory systems, cities and towns provide non-contributory pensions to a limited number of employees, primarily persons who entered service prior to July 1, 1937 and their dependents. The Public Employee Retirement Administration Commission ("PERAC") provides oversight and guidance for and regulates all state and local retirement systems.

The obligations of a city or town, whether direct or through a county system, are contractual legal obligations and are required to be included in the annual tax levy. If a city or town, or the county system of which it is a member, has not established a retirement system funding schedule as described below, the city or town is required to provide for the payment of the portion of its current pension obligations which is not otherwise covered by employee contributions and investment income. "Excess earnings," or earnings on individual employees' retirement accounts in excess of a predetermined rate, are required to be set aside in a pension reserve fund for future, not current, pension liabilities. Cities and towns may voluntarily appropriate to their system's pension reserve fund in any given year up to five percent of the preceding year's tax levy. The aggregate amount in the fund may not exceed ten percent of the equalized valuation of the city or town.

If a city or town, or each member city and town of a county retirement system, has accepted the applicable law, it is required to annually appropriate an amount sufficient to pay not only its current pension obligations, but also a portion of its future pension liability. The portion of each such annual payment allocable to future pension obligations is required to be deposited in the pension reserve fund. The amount of the annual city or town appropriation for each such system is prescribed by a retirement system funding schedule which is periodically reviewed and approved by PERAC. Each system's retirement funding schedule is designed to reduce the unfunded actuarial pension liability of the system to zero by not later than June 30, 2030, with annual increases in the scheduled payment amounts of not more than 4.5 percent. The funding schedule must provide that payment in any year of the schedule is not less than 95 percent of the amount appropriated in the previous fiscal year. City, town and county systems which have an approved retirement funding schedule receive annual pension funding grants from the Commonwealth for the first 16 years of such funding schedule.

Pursuant to recent legislation, a system (other than the state employees' retirement system and the teachers' retirement system) which conducts an actuarial valuation as of January 1, 2009, or later, may establish a revised schedule which reduces the unfunded actuarial liability to zero by not later than June 30, 2040, subject to certain conditions. If the schedule is so extended under such provisions and a later updated valuation allows for the development of a revised schedule with reduced payments, the revised schedule shall be adjusted to provide that the appropriation for each year shall not be less than that for such year under the prior schedule, thus providing for a shorter schedule rather than reduced payments.

City, town and county systems may choose to participate in the Pension Reserves Investment Trust Fund (the "PRIT Fund"), which receives additional state funds to offset future pension costs of participating state and local systems. If a local system participates in the PRIT Fund, it must transfer ownership and control of all assets of its system to the Pension Reserves Investment Management Board, which manages the investment and reinvestment of the PRIT Fund. Cities and towns with systems participating in the PRIT Fund continue to be obligated to fund their pension obligations in the manner described above. The additional state appropriations to offset future pension liabilities of state and local systems participating in the PRIT Fund are required to total at least 1.3 percent of state payroll. Such additional state appropriations are deposited in the PRIT Fund and shared by all participating systems in proportion to their interests in the assets of the PRIT Fund as of July 1 for each fiscal year.

Cost-of-living increases for each local retirement system may be granted and funded only by the local system, and only if it has established a funding schedule. Those statutory provisions are subject to acceptance by the local retirement board and approval by the local legislative body, which acceptance may not be revoked.

In fiscal 1994, the Retirement System adopted a funding schedule to fully fund the Retirement System by 2028, and in fiscal 1998 unanimously approved the adoption of COLA. The future cost of COLA, as well as the present cost, has been built into the funding schedule and submitted to the state Public Employee Retirement Administration for approval. The Retirement Board has adopted a revised funding schedule designed to eliminate the unfunded actuarial liability by 2040.

The annual required contributions of the Town of Andover Contributory Retirement System, a cost-sharing multiple-employer defined benefit pension plan administered by the Andover Contributory Retirement Board, for the current and last five fiscal years were as follows:

<u>Year Ending</u>	<u>Contributory</u>	<u>Non-Contributory</u>
June 30, 2014 (est.)	\$ 5,935,944	\$ -
June 30, 2013	5,496,244	-
June 30, 2012	5,085,067	-
June 30, 2011	4,712,555	-
June 30, 2010	4,635,498	-
June 30, 2009	4,510,979	-

The unfunded pension benefit obligation of the contributory retirement system on January 1, 2012 was as follows:

Actuarial Accrued Liabilities	\$192,533,656
Market Value of Fund Assets	<u>95,691,831</u>
Unfunded Pension Benefit Obligation	<u>\$96,841,825</u>

SOURCE: Extracted from the audited financial statements. Estimates of actuarial liabilities depend on the underlying actuarial assumptions and reference is made to Appendix A for a description of these assumptions.

Funding Schedule (As of January 30, 2012)

(1) Fiscal Year	(2) Employer Normal Cost	(3) Amortization of Unfunded Actuarial Accrued Liability	(4) Total Plan Cost (2) + (3)	(5) Unfunded Actuarial Accrued Liability at Beginning of Fiscal Year	(6) Total Plan Cost: % Increase
2013	\$ 2,103,812	\$ 3,459,188	\$ 5,563,000	\$ 100,524,426	
2014	2,198,484	3,809,556	6,008,040	112,534,636	8.00%
2015	2,297,416	4,191,267	6,488,683	117,101,648	8.00
2016	2,400,800	4,606,978	7,007,778	122,950,034	8.00
2017	2,508,836	5,059,564	7,568,400	129,527,086	8.00
2018	2,621,734	5,552,138	8,173,872	134,510,756	8.00
2019	2,739,712	6,088,070	8,827,782	139,378,233	8.00
2020	2,862,999	6,671,006	9,534,005	144,075,904	8.00
2021	2,991,834	7,304,891	10,296,725	148,542,237	8.00
2022	3,126,467	7,993,996	11,120,463	152,706,851	8.00
2023	3,267,158	8,742,942	12,010,100	156,489,500	8.00
2024	3,414,180	9,556,728	12,970,908	159,798,941	8.00
2025	3,567,818	10,440,763	14,008,581	162,531,693	8.00
2026	3,728,370	11,400,897	15,129,267	164,570,662	8.00
2027	3,896,147	12,443,461	16,339,608	165,783,631	8.00
2028	4,071,474	13,575,303	17,646,777	166,021,589	8.00
2029	4,254,690	14,803,829	19,058,519	165,116,891	8.00
2030	4,446,151	16,137,050	20,583,201	162,881,244	8.00
2031	4,646,228	17,583,629	22,229,857	159,103,470	8.00
2032	4,855,308	19,152,938	24,008,246	153,547,064	8.00
2033	5,073,797	20,855,109	25,928,906	145,947,491	8.00
2034	5,302,118	22,308,257	27,610,375	135,610,256	6.48
2035	5,540,713	23,200,587	28,741,300	122,963,478	4.10
2036	5,790,045	24,128,611	29,918,656	108,410,312	4.10
2037	6,050,597	25,093,755	31,144,352	91,765,963	4.10
2038	6,322,874	26,097,505	32,420,379	72,829,830	4.10
2039	6,607,403	27,141,405	33,748,808	51,384,228	4.10

Notes: Recommended contributions are assumed to be paid on January 1.

Item (2) increases at 4.5% per year.

Item (3) increases at 4.0% per year beginning in fiscal 2035.

Assumes contribution of budgeted amount for fiscal 2013.

Maximum increase in the appropriation from one year to the next is 8%.

Source: January 30, 2012 Actuarial Valuation Report of the Andover Retirement System, PERAC and Actuarial Valuation and Review as prepared by Segal.

Other Post-Employment Benefits

In addition to pension benefits, cities and towns may provide retired employees with health care and life insurance benefits. The portion of the cost of such benefits paid by cities or towns is generally provided on a pay-as-you-go basis. The pay-as-you-go cost to the Town for such benefits to town and school department retirees in recent years has been as follows:

Fiscal Year	Benefit Costs
2013	\$ 4,296,615
2012	6,074,876
2011	5,490,553
2010	4,519,517
2009	4,300,775
2008	4,107,000

The Governmental Accounting Standards Board ("GASB") recently promulgated its Statement Nos. 43 and 45, which will for the first time require public sector entities to report the future costs of these non-pension, post-employment benefits in their financial statements. These new accounting standards do not require pre-funding such benefits, but the basis applied by the standards for measurement of costs and liabilities for these benefits is conservative if they continue to be funded on a pay-as-you-go basis and will result in larger yearly cost and liability accruals than if such benefits were pre-funded in a trust fund in the same manner as traditional pension benefits. Cities and towns that choose to self-insure all or a portion of the cost of the health care benefits they provide to employees and retirees may establish a trust fund for the purpose of paying claims. On January 10, 2009, Massachusetts enacted Chapter 479 of the Acts of 2008 which permits municipalities to establish a trust fund for the purpose of pre-funding this liability in the same manner as traditional pension benefits. At the April 2010 town meeting, the Town accepted the state legislation to establish a trust fund for OPEB purposes. As of June 30, 2011 the trust fund had a balance of \$704,009. As of June 30, 2012 the trust fund had a balance of \$706,248. As of June 30, 2013 the trust fund had a balance of \$1,101,669.

The Town has performed an actuarial valuation study of its non-pension, post-employment benefits. As of June 30, 2013, the Town's unfunded actuarial accrued liability is approximately \$144,813,670 (assuming an 5.75% partially funded discount rate) and the annual required contribution is \$11,423,535.

PROJECTION OF ARC

30 Years Open (5.75% discount rate, payments increasing 3.75%)

Fiscal Year Ended June 30	(1) Projected Benefits Payments	(2) Normal Cost	(3) Amortization of UAAL	(4) ARC (3) + (2)	(5) Additional Funding	(6) Assets at End of Year	(7) AAL at End of Year	(8) UAAL at End of Year (7) - (6)
2013	\$ 5,192,903	\$ 5,305,857	\$ 6,117,678	\$ 11,423,535	\$ 300,000	\$ 1,101,668	\$ 145,915,338	\$ 144,813,670
2014	5,608,335	5,571,150	6,548,799	12,119,949	402,440	1,604,791	154,267,231	152,662,440
2015	6,166,988	5,849,708	6,808,861	12,658,569	1,400,000	3,182,400	162,811,322	159,628,922
2016	6,642,857	6,142,193	7,119,571	13,261,764	1,500,000	4,986,076	171,658,116	166,672,040
2017	7,258,340	6,449,303	7,433,699	13,883,002	1,600,000	7,033,340	180,696,486	173,663,146
2018	7,870,802	6,771,768	7,745,508	14,517,276	1,700,000	9,343,070	189,956,344	180,613,274
2019	8,358,134	7,110,356	8,055,489	15,165,845	1,800,000	11,935,606	199,595,684	187,660,078
2020	8,957,821	7,465,874	8,369,782	15,835,656	1,900,000	14,832,867	209,538,195	194,705,328
2021	9,556,438	7,839,168	8,684,005	16,523,173	2,000,000	18,058,468	219,820,690	201,762,222
2022	10,098,099	8,231,126	8,998,748	17,229,874	2,100,000	21,637,856	230,540,481	208,902,625
2023	10,753,888	8,642,682	9,317,215	17,959,897	2,200,000	25,598,449	241,625,504	216,027,055
2024	11,291,582	9,074,816	9,634,970	18,709,786	2,300,000	29,969,791	253,239,363	223,269,572
2025	11,856,162	9,528,557	9,957,992	19,486,549	2,400,000	34,783,715	265,407,038	230,623,323
2026	12,448,970	10,004,985	10,285,975	20,290,960	2,500,000	40,074,520	278,154,675	238,080,155
2027	13,071,418	10,505,234	10,618,555	21,123,789	2,600,000	45,879,165	291,509,638	245,630,473
2028	13,724,989	11,030,496	10,955,305	21,985,801	2,700,000	52,237,473	305,500,565	253,263,092
2029	14,411,238	11,582,021	11,295,726	22,877,747	2,800,000	59,192,353	320,157,427	260,965,074
2030	15,131,800	12,161,122	11,639,240	23,800,362	2,900,000	66,790,039	335,511,588	268,721,549
2031	15,888,390	12,769,178	11,985,185	24,754,363	3,000,000	75,080,348	351,595,868	276,515,520
2032	16,682,810	13,407,637	12,332,802	25,740,439	3,100,000	84,116,959	368,444,612	284,327,653
2033	17,516,950	14,078,019	12,681,229	26,759,248	3,200,000	93,957,710	386,093,759	292,136,049
2034	18,392,798	14,781,920	13,029,489	27,811,409	3,300,000	104,664,922	404,580,910	299,915,988
2035	19,312,438	15,521,016	13,376,480	28,897,496	3,400,000	116,305,745	423,945,410	307,639,665
2036	20,278,060	16,297,067	13,720,962	30,018,029	3,500,000	128,952,535	444,228,424	315,275,889
2037	21,291,963	17,111,920	14,061,544	31,173,464	3,600,000	142,683,254	465,473,019	322,789,765
2038	22,356,561	17,967,516	14,396,668	32,364,184	3,700,000	157,581,906	487,724,251	330,142,345
2039	23,474,389	18,865,892	14,724,599	33,590,491	3,800,000	173,739,006	511,029,256	337,290,250
2040	24,648,108	19,809,187	15,043,401	34,852,588	3,900,000	191,252,084	535,437,434	344,185,350
2041	25,880,514	20,799,646	15,350,923	36,150,569	4,000,000	210,226,228	561,000,089	350,773,861
2042	27,174,539	21,839,628	15,644,780	37,484,408	4,100,000	230,774,671	587,771,448	356,996,777

Notes: Assumes payment in the middle of the fiscal year.
Fiscal 2013 and 2014 additional funding represents actual contribution.
Fiscal 2015 and later additional funding is based on funding policy.

SOURCE: Actuarial Valuation and Review of Other Post-Employment Benefits (OPEB) as of June 30, 2013 prepared by Segal Consulting.

FUNDING SCHEDULE

30 Years Closed (7.75% discount rate, payments increasing 3.75%)

Fiscal Year Ended June 30	(1) Projected Benefits Payments	(2) Normal Cost with Interest	(3) Amortization of UAAL	(4) Total Funding Requirement (3) + (2)	(5) Additional Funding (4) - (1)	(6) Assets at End of Year	(7) AAL at End of Year	(8) UAAL at End of Year (7) - (6)
2013	\$ 5,192,903	\$ 3,617,081	\$ 5,972,076	\$ 9,589,157	\$ 4,396,254	\$ 1,101,668	\$ 112,435,087	\$ 111,333,419
2014	5,608,335	3,797,935	6,440,301	10,238,236	4,629,901	5,993,009	119,269,562	113,276,553
2015	6,166,988	3,987,832	6,681,812	10,669,644	4,502,656	11,131,346	126,250,930	115,119,584
2016	6,642,857	4,187,224	6,932,380	11,119,604	4,476,747	16,641,010	133,486,364	116,845,354
2017	7,258,340	4,396,585	7,192,345	11,588,930	4,330,590	22,425,957	140,860,978	118,435,021
2018	7,870,802	4,616,414	7,462,057	12,078,471	4,207,669	28,531,643	148,399,561	119,867,918
2019	8,358,134	4,847,235	7,741,885	12,589,120	4,230,986	35,134,722	156,256,119	121,121,397
2020	8,957,821	5,089,597	8,032,205	13,121,802	4,163,981	42,179,988	164,350,647	122,170,659
2021	9,556,438	5,344,077	8,333,413	13,677,490	4,121,052	49,726,700	172,715,278	122,988,578
2022	10,098,099	5,611,281	8,645,916	14,257,197	4,159,098	57,897,775	181,443,274	123,545,499
2023	10,753,888	5,891,845	8,970,138	14,861,983	4,108,095	66,649,166	190,458,196	123,809,030
2024	11,291,582	6,186,437	9,306,518	15,492,955	4,201,373	76,175,615	199,919,428	123,743,813
2025	11,856,162	6,495,759	9,655,512	16,151,271	4,295,109	86,537,665	209,848,941	123,311,276
2026	12,448,970	6,820,547	10,017,594	16,838,141	4,389,171	97,800,412	220,269,779	122,469,367
2027	13,071,418	7,161,574	10,393,254	17,554,828	4,483,410	110,033,844	231,206,109	121,172,265
2028	13,724,989	7,519,653	10,783,001	18,302,654	4,577,665	123,313,207	242,683,276	119,370,069
2029	14,411,238	7,895,636	11,187,363	19,082,999	4,671,761	137,719,395	254,727,859	117,008,464
2030	15,131,800	8,290,418	11,606,890	19,897,308	4,765,508	153,339,373	267,367,729	114,028,356
2031	15,888,390	8,704,939	12,042,148	20,747,087	4,858,697	170,266,633	280,632,112	110,365,479
2032	16,682,810	9,140,186	12,493,728	21,633,914	4,951,104	188,601,677	294,551,654	105,949,977
2033	17,516,950	9,597,195	12,962,243	22,559,438	5,042,488	208,452,546	309,158,488	100,705,942
2034	18,392,798	10,077,055	13,448,327	23,525,382	5,132,584	229,953,379	324,486,305	94,532,926
2035	19,312,438	10,580,908	13,952,640	24,533,548	5,221,110	253,175,024	340,570,430	87,395,406
2036	20,278,060	11,109,953	14,475,864	25,585,817	5,307,757	278,305,683	357,447,896	79,142,213
2037	21,291,963	11,665,451	15,018,709	26,684,160	5,392,197	305,471,619	375,157,529	69,685,910
2038	22,356,561	12,248,724	15,581,910	27,830,634	5,474,073	334,827,905	393,740,030	58,912,125
2039	23,474,389	12,861,160	16,166,232	29,027,392	5,553,003	366,541,234	413,238,064	46,696,830
2040	24,648,108	13,504,218	16,772,465	30,276,683	5,628,575	400,790,793	433,696,356	32,905,563
2041	25,880,514	14,179,429	17,401,433	31,580,862	5,700,348	437,769,194	455,161,782	17,392,588
2042	27,174,539	14,888,400	18,053,987	32,942,387	5,767,848	477,683,488	477,683,488	-

Notes: Assumes payment in the middle of the fiscal year.
Fiscal 2013 additional funding represents actual contribution.

SOURCE: Actuarial Valuation and Review of Other Post-Employment Benefits (OPEB) as of June 30, 2013 prepared by Segal Consulting.

EMPLOYEE RELATIONS

The Town employs approximately 1,187 full and part-time workers, of whom 96 are employed by the School Department, 72 by the Fire Department, 59 by the Police Department, 96 by the Public Works and Maintenance Departments, and the balance of the employees are in various other departments of the Town. Town and school employees (other than managerial and confidential employees) are entitled to join unions and to bargain collectively on questions of wages, hours and other terms and conditions of employment. Of the 1,183 full and part-time employees of the Town, 1,288 are represented by unions including employees of the school, police, fire and public works departments. The contracts for the food service workers, instructional assistants and school secretaries' contracts expire on June 30, 2014. The contracts with the fire, public works, and custodians expire on June 30, 2014. The school administrators and teachers' contract expire on June 30, 2014. The police superior officers, patrolmen and dispatchers signed a one year contract that will end June 30, 2014.

LITIGATION

At present there are cases pending in various courts throughout the Commonwealth where the Town of Andover is a defendant. In the opinion of the Town, none of the pending litigation is likely to result, either individually or in the aggregate, in a final judgment against the Town that would materially affect its financial position.

TOWN OF ANDOVER, MASSACHUSETTS
/s/ David J. Reilly, Treasurer

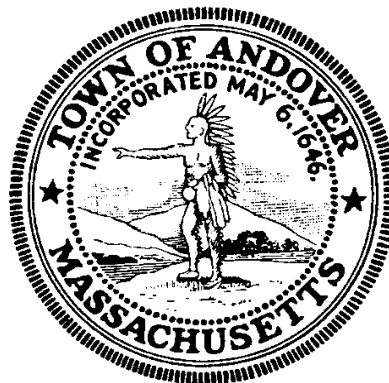
February 26, 2014

TOWN OF ANDOVER, MASSACHUSETTS

COMPREHENSIVE ANNUAL FINANCIAL REPORT



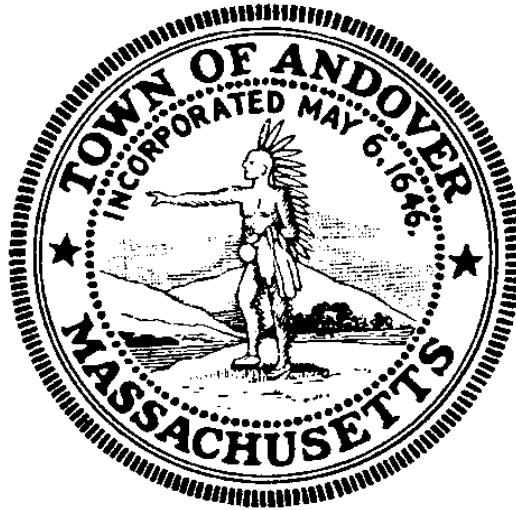
For the Fiscal Year Ended June 30, 2013



TOWN OF ANDOVER, MASSACHUSETTS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended
June 30, 2013



Prepared by:

Rodney Smith, Town Accountant

TOWN OF ANDOVER, MASSACHUSETTS
COMPREHENSIVE ANNUAL FINANCIAL REPORT

JUNE 30, 2013

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Independent Auditor's Report

To the Honorable Board of Selectmen
Town of Andover, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Andover, Massachusetts as of and for the year ended June 30, 2013 (except for the Andover Contributory Retirement System which is as of and for the year ended December 31, 2012), and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Andover, Massachusetts, as of June 30, 2013 (except for the Andover Contributory Retirement System which is as of and for the year ended December 31, 2012), and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Andover, Massachusetts' basic financial statements. The introductory section, combining and individual fund statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund statements, as listed in the table of contents, are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2014, on our consideration of the Town of Andover, Massachusetts' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Andover, Massachusetts' internal control over financial reporting and compliance.



January 24, 2014

Management's Discussion and Analysis

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Management's Discussion and Analysis

As management of the Town of Andover, we offer readers of these financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2013. The Town complies with financial reporting requirements issued by the Governmental Accounting Standards Board (GASB). We encourage readers to consider the information presented in this report in conjunction with additional information that we have furnished in our letter of transmittal.

The Governmental Accounting Standards Board (GASB) is the authoritative standard setting body that provides guidance on how to prepare financial statements in conformity with generally accepted accounting principles (GAAP). Users of these financial statements (such as investors and rating agencies) rely on the GASB to establish consistent reporting standards for all governments in the United States. This consistent application is the only way users (including citizens, the media, legislators and others) can assess the financial condition of one government compared to others.

Financial Highlights

- At the close of the current fiscal year, the Town's general fund reported an ending fund balance of \$15.1 million which represents 11% of total general fund budgetary basis expenditures.
- The assets of the Town of Andover exceeded liabilities at the close of the most recent fiscal year by \$131.2 million (net position).
- The Town's noncurrent governmental liabilities (excluding debt) increased by \$7.1 million, which was primarily due to the recognition of the other postemployment benefit (OPEB) liability.
- The Town's total governmental gross debt (short-term and long-term combined) increased by \$12.6 million during the current fiscal year. This was due to the net effect of \$2.0 million and \$9.4 million in principal payments on short-term and long-term debt, respectively, the issuance of \$24.0 million of long-term debt for school construction, building renovations, and an advanced refunding of \$3.4 million.
- The Town's total business-type gross long-term debt decreased by \$735,000 during the current fiscal year. This was due to the net effect of \$3.9 million in principal payments and the issuance of \$3.2 million of debt for infrastructure improvements and an advanced refunding of \$1.2 million.
- The advanced refunding noted above reduced future debt service payments by \$462,000.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town of Andover's basic financial statements. These basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of finances, in a manner similar to private-sector business.

The *statement of net position* presents information on all assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities include general government, public safety, education, municipal services, community services, library, and interest. The business-type activities include the activities of water and sewer services.

The government-wide financial statements include not only the Town of Andover itself (known as the *primary government*), but also a legally separate public employee retirement system for which the Town of Andover is financially accountable. Financial information for this *component unit* is reported separately within the fiduciary fund statements.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. The focus of the Town of Andover's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town of Andover's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Town of Andover adopts an annual appropriated budget for its general fund. A budget to actual schedule has been provided for the general fund to demonstrate compliance with this budget.

Proprietary funds. The Town maintains two types of proprietary funds.

Enterprise funds are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town uses enterprise funds to account for its water and sewer activities.

The *internal service fund* is used to account for the financing of services provided by one department to other departments or governmental units. This fund is used to account for risk financing activities related to active employees' and retirees' health and life insurance, unemployment compensation, workers' compensation, and general liability insurance.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The Town of Andover's assets exceeded liabilities by \$131.2 million at the close of fiscal year 2013, which was an increase of \$5.3 million from the prior year.

Net position of \$150.2 million reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery, and equipment); less any related debt used to acquire those assets that are still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the investment in its capital assets is reported net of its related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net position, \$9.3 million, represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* has a year-end deficit of \$28.2 million. The primary reason for this deficit balance is the recognition of OPEB liabilities.

At the end of the current fiscal year, the Town is able to report positive balances in two of three categories of net position, for the Town as a whole and for its governmental activities. Its business-type activities report positive balances in both categories.

The governmental activity and business-type activity components are presented on the following pages.

Governmental Activities

The Town's assets exceeded liabilities for governmental activities by \$67 million at the close of fiscal year 2013.

	FY13	FY12
Assets:		
Current assets.....	\$ 58,187,485	\$ 43,556,130
Noncurrent assets (excluding capital).....	4,339,879	5,722,507
Capital assets.....	153,411,443	136,858,283
Total assets.....	215,938,807	186,136,920
Liabilities:		
Current liabilities (excluding debt).....	11,858,651	9,448,652
Noncurrent liabilities (excluding debt).....	69,924,000	62,797,000
Current debt.....	7,034,527	7,875,835
Noncurrent debt.....	60,090,493	44,861,363
Total liabilities.....	148,907,671	124,982,850
Net Position:		
Net investment in capital assets.....	104,403,021	97,503,961
Restricted.....	9,250,406	6,194,838
Unrestricted.....	(46,622,291)	(42,544,729)
Total net position.....	\$ 67,031,136	\$ 61,154,070

	<u>FY13</u>	<u>FY12</u>
Program revenues:		
Charges for services.....	\$ 12,928,317	\$ 11,850,014
Operating grants and contributions.....	27,330,776	27,219,005
Capital grants and contributions.....	9,702,374	2,310,588
General Revenues:		
Real estate and personal property taxes.....	110,652,457	107,658,022
Motor vehicle and other excise taxes.....	6,430,755	5,884,034
Nonrestricted grants.....	2,099,507	2,005,649
Unrestricted investment income.....	74,364	273,240
Other revenues.....	1,405,804	1,414,766
Total revenues.....	<u>170,624,354</u>	<u>158,615,318</u>
Expenses:		
General government.....	9,997,575	9,579,841
Public safety.....	21,349,177	21,019,992
Education.....	111,484,537	110,530,908
Municipal services.....	14,475,054	12,973,596
Community services.....	3,497,572	3,547,165
Library.....	3,291,536	3,330,995
Interest.....	2,180,097	1,813,401
Total expenses.....	<u>166,275,548</u>	<u>162,795,898</u>
Excess (deficiency) before transfers.....	4,348,806	(4,180,580)
Transfers.....	<u>1,528,260</u>	<u>1,639,574</u>
Change in net position.....	\$ <u>5,877,066</u>	\$ <u>(2,541,006)</u>

The governmental expenses totaled \$166.3 million of which \$50.0 million (30%) was directly supported by program revenues consisting of charges for services, operating and capital grants and contributions. General revenues totaled \$122.2 million, primarily coming from property taxes, motor vehicle excise, and non-restricted state aid.

The governmental net position increased by \$5.9 million during the current fiscal year. This was primarily due to \$7.7 million in capital grant revenue from the Massachusetts School Building Authority (the MSBA) for eligible school construction costs, and \$1.6 million in capital grant revenue from the State's Chapter 90, and the timing of grants revenue and expenditures; offset by the recognition of \$6.4 million of additional OPEB liabilities.

Governmental expenses increased by \$3.5 million. This is primarily due to a \$954,000 increase in educational expenditures and a \$1.5 million increase in municipal services, of which \$876,000 relates to snow and ice expenditures.

In fiscal 2013, the Town consolidated its public facilities and public works budgetary line-items and formed a new budgetary line-item called municipal services.

Business-Type Activities

For the Town's business-type activities, assets exceeded liabilities by \$64.2 million at the close of fiscal year 2013.

	FY13	FY12
Assets:		
Current assets.....	\$ 15,598,977	\$ 13,439,791
Noncurrent assets (excluding capital).....	9,329,183	10,448,221
Capital assets.....	74,652,524	76,752,434
Total assets.....	99,580,684	100,640,446
Liabilities:		
Current liabilities (excluding debt).....	498,580	710,875
Noncurrent liabilities (excluding debt).....	1,435,000	1,241,000
Current debt.....	2,743,110	2,689,674
Noncurrent debt.....	30,692,495	31,260,019
Total liabilities.....	35,369,185	35,901,568
Net Position:		
Net investment in capital assets.....	45,822,689	46,353,252
Unrestricted.....	18,388,810	18,385,626
Total net position.....	\$ 64,211,499	\$ 64,738,878
Program revenues:		
Charges for services.....	\$ 11,485,877	\$ 11,210,792
Capital grants and contributions.....	42,339	-
General Revenues:		
Unrestricted investment income.....	10,245	8,825
Total revenues.....	11,538,461	11,219,617
Expenses:		
Water.....	6,363,699	6,459,218
Sewer.....	4,173,881	4,157,552
Total expenses.....	10,537,580	10,616,770
Excess (deficiency) before transfers.....	1,000,881	602,847
Transfers.....	(1,528,260)	(1,639,574)
Change in net position.....	\$ (527,379)	\$ (1,036,727)

Business-type net position of \$45.8 million (71%) represents the investment in capital assets while \$18.4 million (29%) is unrestricted. The Town's business-type net position decreased by \$527,000 in the current fiscal year.

The water department net position decreased by \$210,000. This decrease was primarily due to the recognition of \$167,000 in additional other postemployment benefit liabilities.

The sewer department net position decreased by \$318,000. The decrease in net position is mainly due to the budgeted use of reserves to balance appropriations.

Financial Analysis of the Government's Funds

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, governmental funds reported combined ending fund balances of \$35.6 million which is comprised of \$15.1 million in the general fund, \$969,000 in the school projects fund, and \$19.6 million of nonmajor governmental funds. Cumulatively there was an increase of \$10.2 million in fund balances from the prior year.

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$12.7 million, while total fund balance was \$15.1 million. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 9% of total general fund budgetary expenditures, while total fund balance represents 11% of that same amount. The general fund experienced an increase of \$2.1 million, which is due to a revenue surplus totaling \$889,000 and unspent appropriations totaling \$1.3 million.

The highway construction fund is used to account for highway construction projects that are reimbursable by the Massachusetts Department of Transportation. In fiscal 2013, the Town recorded reimbursable expenditures and capital grant revenue totaling \$847,000.

The school projects fund experienced an increase of \$3.1 million. This increase is due to reimbursements received from the Massachusetts School Business Authority, as well as the permanent financing of current and prior year construction costs.

The nonmajor funds experienced an increase of \$5.0 million that was due to timing differences between the receipt and expenditure of grant funds and the permanent financing of various capital projects.

General Fund Budgetary Highlights

The \$3.0 million increase between the original budget and the final amended budget was due to supplemental appropriations approved at Special Town Meeting to fund capital articles.

Capital Asset and Debt Administration

Capital Assets. In conjunction with the annual operating budget, the Town annually prepares a capital budget for the upcoming fiscal year and a five-year Capital Improvement Plan (CIP) that is used as a guide for future capital expenditures.

Major capital events during the current fiscal year include the following:

- Governmental activities included additions to construction in progress, machinery and equipment, infrastructure, vehicles and library books totaling \$22.9 million.
- Business-type activities included additions to construction in progress, machinery and equipment, water and sewer infrastructure, and vehicles, totaling \$940,000.

Debt Administration. The Town of Andover maintains an AAA Bond Rating with Standard & Poor's Investors Service and continues to maintain strong market access for both note and bond sales.

Outstanding long-term debt for governmental activities, as of June 30, 2013, totaled \$64.8 million, of which \$41.9 million is related to school projects, \$6.2 million is for public safety projects, and the remaining balance of \$16.7 million is for other CIP related projects. The Town issued \$24.0 million of governmental long-term debt of which \$19.4 million relates to long-term general obligation bonds to fund school projects, public safety, municipal services, and land acquisition and \$4.6 million relates to general obligation refunding bonds.

The sewer and water enterprise funds have outstanding long-term debt totaling \$23.0 million and \$10.0 million, respectively, at year-end. \$3.2 million was issued in fiscal 2013 to fund acquisitions of machinery, infrastructure, and vehicles. The debt is fully supported by rates and does not rely on a general fund subsidy.

The Commonwealth of Massachusetts is obligated to provide school construction grants for approved school projects. The grants are paid annually to support future interest expense on school construction related long-term debt and the construction costs funded by that debt. At June 30, 2013, the Town is scheduled to receive \$264,000 of future interest grants and \$5,532,000 million of capital grants. The payment schedule for the Commonwealth is structured to match the debt service expenditures.

Beginning in fiscal year 2005, the Commonwealth changed the method for funding the school building assistance program. Under the new program, the assistance is paid to support construction costs and reduce the total debt service of the Town. Through the end of fiscal year 2013, the Town has recorded capital grant proceeds totaling \$6.8 million, from the MSBA, which is equal to 44% of approved construction costs submitted for reimbursement. The Town anticipates receiving an additional \$2.7 million of grant proceeds in fiscal 2014.

In order to take advantage of favorable interest rates, the Town issued \$4,595,000 of general obligation refunding bonds on December 19, 2012. \$4,850,000 of general obligation bonds were advance refunded by placing the proceeds of the refunding bonds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net position. The reacquisition price exceeded the net carrying amount of the old debt by \$459,590. This amount is recorded as deferred charges on refunding and is being amortized over the life of the refunding debt, which is the same as the remaining life of the refunded debt. This advance refunding was undertaken to reduce total debt service payments over the next 12 years by \$462,187 and resulted in an economic gain of \$411,232. At June 30, 2013, \$4,850,000 of bonds outstanding from the advance refunding is considered defeased.

Please refer to notes 4, 6, and 7 for further discussion of the major capital and debt activity.

Requests for Information

This financial report is designed to provide a general overview of the Town of Andover's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Town Accountant, Town Offices, 36 Bartlet Street, Andover, Massachusetts 01810.

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Basic Financial Statements

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STATEMENT OF NET POSITION

JUNE 30, 2013

	<i>Primary Government</i>		
	Governmental Activities	Business-type Activities	Total
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 34,150,898	\$ 10,230,470	\$ 44,381,368
Investments.....	10,465,057	-	10,465,057
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	2,074,638	-	2,074,638
Tax liens.....	1,634,203	24,770	1,658,973
Motor vehicle and other excise taxes.....	736,189	-	736,189
User fees.....	-	4,582,104	4,582,104
Departmental and other.....	565,344	-	565,344
Special assessments.....	-	761,633	761,633
Intergovernmental.....	8,310,996	-	8,310,996
Tax foreclosures.....	250,160	-	250,160
Total current assets.....	<u>58,187,485</u>	<u>15,598,977</u>	<u>73,786,462</u>
NONCURRENT:			
Receivables, net of allowance for uncollectibles:			
Real estate tax deferrals.....	223,742	-	223,742
Intergovernmental.....	4,116,137	-	4,116,137
Special assessments.....	-	9,329,183	9,329,183
Capital assets, net of accumulated depreciation:			
Nondepreciable.....	51,406,786	415,673	51,822,459
Depreciable.....	<u>102,004,657</u>	<u>74,236,851</u>	<u>176,241,508</u>
Total noncurrent assets.....	<u>157,751,322</u>	<u>83,981,707</u>	<u>241,733,029</u>
TOTAL ASSETS.....	<u>215,938,807</u>	<u>99,580,684</u>	<u>315,519,491</u>
LIABILITIES			
CURRENT:			
Warrants payable.....	3,828,049	62,316	3,890,365
Accrued payroll.....	4,630,684	41,623	4,672,307
Tax refunds payable.....	952,000	-	952,000
Accrued interest.....	774,955	263,203	1,038,158
Abandoned property.....	14,460	-	14,460
Customer deposits payable.....	27,503	9,438	36,941
Landfill closure.....	171,000	-	171,000
Compensated absences.....	1,426,000	122,000	1,548,000
Workers' compensation.....	34,000	-	34,000
Bonds payable.....	<u>7,034,527</u>	<u>2,743,110</u>	<u>9,777,637</u>
Total current liabilities.....	<u>18,893,178</u>	<u>3,241,690</u>	<u>22,134,868</u>
NONCURRENT:			
Landfill closure.....	14,271,000	-	14,271,000
Compensated absences.....	3,319,000	276,000	3,595,000
Workers' compensation.....	305,000	-	305,000
Other postemployment benefits.....	52,029,000	1,159,000	53,188,000
Bonds payable.....	<u>60,090,493</u>	<u>30,692,495</u>	<u>90,782,988</u>
Total noncurrent liabilities.....	<u>130,014,493</u>	<u>32,127,495</u>	<u>162,141,988</u>
TOTAL LIABILITIES.....	<u>148,907,671</u>	<u>35,369,185</u>	<u>184,276,856</u>
NET POSITION			
Net investment in capital assets.....	104,403,021	45,822,689	150,225,710
Restricted for:			
Permanent funds:			
Expendable.....	546,536	-	546,536
Nonexpendable.....	1,278,486	-	1,278,486
Debt service.....	1,092,228	-	1,092,228
Grants and gifts.....	6,333,156	-	6,333,156
Unrestricted.....	<u>(46,622,291)</u>	<u>18,388,810</u>	<u>(28,233,481)</u>
TOTAL NET POSITION.....	<u>\$ 67,031,136</u>	<u>\$ 64,211,499</u>	<u>\$ 131,242,635</u>

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2013

		Program Revenues				
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue	
Primary Government:						
<i>Governmental Activities:</i>						
General government.....	\$ 9,997,575	\$ 1,222,385	\$ 327,473	\$ -	\$ (8,447,717)	
Public safety.....	21,349,177	5,376,825	270,328	-	(15,702,024)	
Education.....	111,484,537	4,533,644	26,139,620	7,690,079	(73,121,194)	
Municipal services.....	14,475,054	162,610	39,912	1,553,595	(12,718,937)	
Community services.....	3,497,572	1,623,218	337,100	458,700	(1,078,554)	
Library.....	3,291,536	9,635	29,383	-	(3,252,518)	
Interest.....	2,180,097	-	186,960	-	(1,993,137)	
Total Governmental Activities.....	166,275,548	12,928,317	27,330,776	9,702,374	(116,314,081)	
<i>Business-Type Activities:</i>						
Water.....	6,363,699	7,244,362	-	-	880,663	
Sewer.....	4,173,881	4,241,515	-	42,339	109,973	
Total Business-Type Activities.....	10,537,580	11,485,877	-	42,339	990,636	
Total Primary Government.....	\$ 176,813,128	\$ 24,414,194	\$ 27,330,776	\$ 9,744,713	\$ (115,323,445)	

See notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES (Continued)

FISCAL YEAR ENDED JUNE 30, 2013

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Changes in net position:			
Net (expense) revenue from previous page.....	\$ (116,314,081)	\$ 990,636	\$ (115,323,445)
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	110,652,457	-	110,652,457
Tax liens.....	420,138	-	420,138
Motor vehicle excise taxes.....	4,903,920	-	4,903,920
Hotel/motel tax.....	1,526,835	-	1,526,835
Meals tax.....	547,235	-	547,235
Penalties and interest on taxes.....	298,550	-	298,550
Grants and contributions not restricted to specific programs.....	2,099,507	-	2,099,507
Unrestricted investment income.....	74,364	10,245	84,609
Miscellaneous.....	139,881	-	139,881
<i>Transfers, net</i>	<u>1,528,260</u>	<u>(1,528,260)</u>	<u>-</u>
Total general revenues, special items, and transfers.....	<u>122,191,147</u>	<u>(1,518,015)</u>	<u>120,673,132</u>
Change in net position.....	5,877,066	(527,379)	5,349,687
<i>Net Position:</i>			
Beginning of year.....	<u>61,154,070</u>	<u>64,738,878</u>	<u>125,892,948</u>
End of year.....	<u>\$ 67,031,136</u>	<u>\$ 64,211,499</u>	<u>\$ 131,242,635</u>

(Concluded)

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2013

	General	Highway Construction	School Projects	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents.....	\$ 13,378,930	\$ -	\$ 3,098,634	\$ 16,213,298	\$ 32,690,862
Investments.....	7,834,541	-	-	2,630,516	10,465,057
Receivables, net of uncollectibles:					
Real estate and personal property taxes.....	2,074,638	-	-	-	2,074,638
Real estate tax deferrals.....	223,742	-	-	-	223,742
Tax liens.....	1,634,203	-	-	-	1,634,203
Motor vehicle and other excise taxes.....	736,189	-	-	-	736,189
Departmental and other.....	452,678	-	-	112,666	565,344
Intergovernmental.....	5,532,244	2,963,064	2,732,905	1,198,920	12,427,133
Due from other funds.....	3,795	-	-	-	3,795
Tax foreclosures.....	250,160	-	-	-	250,160
TOTAL ASSETS.....	\$ 32,121,120	\$ 2,963,064	\$ 5,831,539	\$ 20,155,400	\$ 61,071,123
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Warrants payable.....	\$ 1,075,116	\$ 341,074	\$ 2,129,912	\$ 272,147	\$ 3,818,249
Accrued payroll.....	4,441,819	-	-	188,865	4,630,684
Tax refunds payable.....	952,000	-	-	-	952,000
Liabilities due depositors.....	27,503	-	-	-	27,503
Abandoned property.....	14,460	-	-	-	14,460
Deferred revenues.....	10,520,119	2,618,195	2,732,905	109,609	15,980,828
Due to other funds.....	-	3,795	-	-	3,795
TOTAL LIABILITIES.....	17,031,017	2,963,064	4,862,817	570,621	25,427,519
FUND BALANCES:					
Nonspendable.....	-	-	-	1,278,486	1,278,486
Restricted.....	1,092,228	-	968,722	18,306,293	20,367,243
Committed.....	100,734	-	-	-	100,734
Assigned.....	1,181,371	-	-	-	1,181,371
Unassigned.....	12,715,770	-	-	-	12,715,770
TOTAL FUND BALANCES.....	15,090,103	-	968,722	19,584,779	35,643,604
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 32,121,120	\$ 2,963,064	\$ 5,831,539	\$ 20,155,400	\$ 61,071,123

See notes to basic financial statements.

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TOTAL FUND BALANCES TO THE STATEMENT OF NET POSITION**

JUNE 30, 2013

Total governmental fund balances.....	\$ 35,643,604
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....	153,411,443
Accounts receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds.....	15,980,828
Internal service funds are used by management to account for unemployment, health insurance and workers' compensation activities.	
The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position.....	1,111,236
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....	(774,955)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Bonds payable.....	(67,125,020)
Landfill closure.....	(14,442,000)
Compensated absences.....	(4,745,000)
Other postemployment benefits.....	<u>(52,029,000)</u>
Net effect of reporting long-term liabilities.....	<u>(138,341,020)</u>
Net position of governmental activities.....	<u>\$ 67,031,136</u>

See notes to basic financial statements.

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FISCAL YEAR ENDED JUNE 30, 2013

	General	Highway Construction	School Projects	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:					
Real estate and personal property taxes, net of tax refunds.....	\$ 110,384,336	\$ -	\$ -	\$ -	\$ 110,384,336
Tax liens.....	88,055	-	-	-	88,055
Motor vehicle excise taxes.....	4,745,068	-	-	-	4,745,068
Hotel/motel tax.....	1,526,835	-	-	-	1,526,835
Meals tax.....	547,235	-	-	-	547,235
Charges for services.....	-	-	-	126,718	126,718
Penalties and interest on taxes.....	298,550	-	-	-	298,550
Fees.....	-	-	-	381,835	381,835
Licenses and permits.....	2,334,522	-	-	-	2,334,522
Fines and forfeitures.....	-	-	-	1,100	1,100
Intergovernmental.....	24,894,505	846,651	5,273,236	5,424,640	36,439,032
Departmental and other.....	3,100,973	-	-	7,437,796	10,538,769
Contributions.....	-	-	-	499,627	499,627
Investment income.....	40,893	-	-	11,506	52,399
TOTAL REVENUES.....	147,960,972	846,651	5,273,236	13,883,222	167,964,081
EXPENDITURES:					
Current:					
General government.....	7,083,243	-	-	499,397	7,582,640
Public safety.....	14,479,482	-	-	1,481,601	15,961,083
Education.....	66,434,651	-	-	8,908,034	75,342,685
Municipal services.....	10,491,489	846,651	-	145,976	11,484,116
Community services.....	1,614,833	-	-	1,358,140	2,972,973
Library.....	2,466,793	-	-	65,789	2,532,582
Pension benefits.....	18,565,841	-	-	-	18,565,841
Property and liability insurance.....	717,613	-	-	-	717,613
Employee benefits.....	14,211,500	-	-	-	14,211,500
State and county charges.....	2,468,820	-	-	-	2,468,820
Capital outlay.....	-	-	16,478,073	5,526,883	22,004,956
Debt service:					
Principal.....	5,813,900	-	-	-	5,813,900
Interest.....	1,871,364	-	-	-	1,871,364
TOTAL EXPENDITURES.....	146,219,529	846,651	16,478,073	17,985,820	181,530,073
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	1,741,443	-	(11,204,837)	(4,102,598)	(13,565,992)
OTHER FINANCING SOURCES (USES):					
Issuance of bonds.....	-	-	14,000,000	6,555,000	20,555,000
Issuance of refunding bonds.....	3,423,300	-	-	-	3,423,300
Premium from issuance of bonds.....	1,657,247	-	-	-	1,657,247
Premium from issuance of refunding bonds.....	599,483	-	-	-	599,483
Payment to refunded bonds escrow agent.....	(3,957,244)	-	-	-	(3,957,244)
Transfers in.....	1,659,760	-	348,300	2,881,000	4,889,060
Transfers out.....	(3,017,500)	-	-	(343,300)	(3,360,800)
TOTAL OTHER FINANCING SOURCES (USES)...	365,046	-	14,348,300	9,092,700	23,806,046
NET CHANGE IN FUND BALANCES.....	2,106,489	-	3,143,463	4,990,102	10,240,054
FUND BALANCES AT BEGINNING OF YEAR.....	12,983,614	-	(2,174,741)	14,594,677	25,403,550
FUND BALANCES AT END OF YEAR.....	\$ 15,090,103	\$ -	\$ 968,722	\$ 19,584,779	\$ 35,643,604

See notes to basic financial statements.

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**

FISCAL YEAR ENDED JUNE 30, 2013

Net change in fund balances - total governmental funds.....	\$ 10,240,054
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>	
Capital outlay.....	22,881,895
Depreciation expense.....	<u>(6,328,735)</u>
Net effect of reporting capital assets.....	16,553,160
<p>Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue.....</p>	
	2,658,486
<p>The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.</p>	
Issuance of bonds.....	(20,555,000)
Issuance of refunding bonds.....	(3,423,300)
Payment to refunded bonds escrow agent.....	3,957,244
Debt service principal payments.....	5,813,900
Deferral of premium on bonds	(1,986,979)
Amortization of deferred charges on refunding.....	<u>(193,687)</u>
Net effect of reporting long-term debt.....	(16,387,822)
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.</p>	
Net change in compensated absences accrual.....	(173,000)
Net change in accrued interest on long-term debt.....	(308,733)
Net change in other postemployment benefits.....	(6,357,000)
Net change in landfill closure liability.....	<u>(690,000)</u>
Net effect of recording long-term liabilities and amortizing deferred losses.....	(7,528,733)
<p>Internal service funds are used by management to account for health insurance and workers' compensation activities.</p>	
The net activity of internal service funds is reported with Governmental Activities.....	<u>341,921</u>
Change in net position of governmental activities.....	<u>\$ 5,877,066</u>

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET POSITION

JUNE 30, 2013

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Water	Sewer	Total	
ASSETS				
CURRENT:				
Cash and cash equivalents.....	\$ 5,563,965	\$ 4,666,505	\$ 10,230,470	\$ 1,460,036
Receivables, net of allowance for uncollectibles:				
User fees.....	2,895,405	1,686,699	4,582,104	-
Water and sewer liens.....	17,339	7,431	24,770	-
Special assessments.....	-	761,633	761,633	-
Total current assets.....	8,476,709	7,122,268	15,598,977	1,460,036
NONCURRENT:				
Receivables, net of allowance for uncollectibles:				
Special assessments.....	-	9,329,183	9,329,183	-
Capital assets, net of accumulated depreciation:				
Nondepreciable.....	266,017	149,656	415,673	-
Depreciable.....	35,488,256	38,748,595	74,236,851	-
Total noncurrent assets.....	35,754,273	48,227,434	83,981,707	-
TOTAL ASSETS.....	44,230,982	55,349,702	99,580,684	1,460,036
LIABILITIES				
CURRENT:				
Warrants payable.....	57,771	4,545	62,316	9,800
Accrued payroll.....	33,653	7,970	41,623	-
Accrued interest.....	73,892	189,311	263,203	-
Other Liabilities.....	-	9,438	9,438	-
Compensated absences.....	104,000	18,000	122,000	-
Workers' compensation.....	-	-	-	34,000
Bonds payable.....	766,291	1,976,819	2,743,110	-
Total current liabilities.....	1,035,607	2,206,083	3,241,690	43,800
NONCURRENT:				
Compensated absences.....	225,000	51,000	276,000	-
Workers' compensation.....	-	-	-	305,000
Other postemployment benefits.....	970,000	189,000	1,159,000	-
Bonds payable.....	9,340,934	21,351,561	30,692,495	-
Total noncurrent liabilities.....	10,535,934	21,591,561	32,127,495	305,000
TOTAL LIABILITIES.....	11,571,541	23,797,644	35,369,185	348,800
NET POSITION				
Net investment in capital assets.....	28,001,948	17,820,741	45,822,689	-
Unrestricted.....	4,657,493	13,731,317	18,388,810	1,111,236
TOTAL NET POSITION.....	\$ 32,659,441	\$ 31,552,058	\$ 64,211,499	\$ 1,111,236

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

FISCAL YEAR ENDED JUNE 30, 2013

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Water	Sewer	Total	
OPERATING REVENUES:				
Employee contributions.....	\$ -	\$ -	\$ -	\$ 4,006,835
Employer contributions.....	-	-	-	14,170,593
Charges for services.....	7,244,362	4,241,515	11,485,877	-
Intergovernmental.....	-	-	-	495,955
TOTAL OPERATING REVENUES.....	7,244,362	4,241,515	11,485,877	18,673,383
OPERATING EXPENSES:				
Cost of services and administration.....	4,209,050	2,208,151	6,417,201	-
Depreciation.....	1,879,719	1,160,258	3,039,977	-
Employee benefits.....	-	-	-	18,316,625
Property and liability insurance.....	-	-	-	16,624
TOTAL OPERATING EXPENSES.....	6,088,769	3,368,409	9,457,178	18,333,249
OPERATING INCOME (LOSS).....	1,155,593	873,106	2,028,699	340,134
NONOPERATING REVENUES (EXPENSES):				
Investment income.....	5,668	4,577	10,245	1,787
Interest expense.....	(274,930)	(805,472)	(1,080,402)	-
Special assessments - betterments.....	-	42,339	42,339	-
TOTAL NONOPERATING REVENUES (EXPENSES), NET.....	(269,262)	(758,556)	(1,027,818)	1,787
INCOME (LOSS) BEFORE TRANSFERS.....	886,331	114,550	1,000,881	341,921
TRANSFERS:				
Transfers in.....	55,000	17,500	72,500	-
Transfers out.....	(1,151,024)	(449,736)	(1,600,760)	-
TOTAL OPERATING TRANSFERS.....	(1,096,024)	(432,236)	(1,528,260)	-
CHANGE IN NET POSITION.....	(209,693)	(317,686)	(527,379)	341,921
NET POSITION AT BEGINNING OF YEAR.....	32,869,134	31,869,744	64,738,878	769,315
NET POSITION AT END OF YEAR.....	\$ 32,659,441	\$ 31,552,058	\$ 64,211,499	\$ 1,111,236

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

FISCAL YEAR ENDED JUNE 30, 2013

	Business-type Activities - Enterprise Funds			Governmental Activities - Internal Service Funds
	Water	Sewer	Total	
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>				
Receipts from customers and users.....	\$ 7,121,117	\$ 4,259,250	\$ 11,380,367	\$ 4,006,835
Receipts from interfund services provided.....	-	-	-	14,170,593
Receipts from other governments.....	-	-	-	495,955
Payments to vendors.....	(2,400,531)	(1,741,507)	(4,142,038)	(16,624)
Payments to employees.....	(1,630,123)	(414,588)	(2,044,711)	(85,815)
Payments for interfund services used.....	-	-	-	(18,232,510)
NET CASH FROM OPERATING ACTIVITIES.....	3,090,463	2,103,155	5,193,618	338,434
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u>				
Transfers in.....	55,000	17,500	72,500	-
Transfers out.....	(1,151,024)	(449,736)	(1,600,760)	-
NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....	(1,096,024)	(432,236)	(1,528,260)	-
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>				
Proceeds from the issuance of bonds and notes.....	600,000	1,400,000	2,000,000	-
Proceeds from the issuance of refunding bonds.....	235,050	936,650	1,171,700	-
Premium from the issuance of bonds and notes.....	41,162	117,755	158,917	-
Premium from the issuance of refunding bonds.....	49,015	164,025	213,040	-
Acquisition and construction of capital assets.....	(464,703)	(733,486)	(1,198,189)	-
Principal payments on bonds and notes.....	(827,185)	(1,829,700)	(2,656,885)	-
Payment to refunded bonds escrow agent.....	(250,000)	(1,000,000)	(1,250,000)	-
Refunding bond issue costs.....	(35,597)	(106,460)	(142,057)	-
Special assessments.....	-	1,188,584	1,188,584	-
Interest expense.....	(266,885)	(813,209)	(1,080,094)	-
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	(919,143)	(675,841)	(1,594,984)	-
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>				
Investment income.....	5,668	4,577	10,245	1,787
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	1,080,964	999,655	2,080,619	340,221
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	4,483,001	3,666,850	8,149,851	1,119,815
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	\$ 5,563,965	\$ 4,666,505	\$ 10,230,470	\$ 1,460,036
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:</u>				
Operating income (loss).....	\$ 1,155,593	\$ 873,106	\$ 2,028,699	\$ 340,134
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation.....	1,879,719	1,160,258	3,039,977	-
Changes in assets and liabilities:				
Water and sewer liens.....	3,614	3,543	7,157	-
User fees.....	(126,859)	13,928	(112,931)	-
Warrants payable.....	(51,257)	35,086	(16,171)	5,300
Accrued payroll.....	33,653	7,970	41,623	-
Other postemployment benefits.....	167,000	8,000	175,000	-
Liabilities due depositors.....	-	264	264	-
Accrued compensated absences.....	29,000	1,000	30,000	-
Workers' compensation.....	-	-	-	(7,000)
Total adjustments.....	1,934,870	1,230,049	3,164,919	(1,700)
NET CASH FROM OPERATING ACTIVITIES.....	\$ 3,090,463	\$ 2,103,155	\$ 5,193,618	\$ 338,434

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF NET POSITION

JUNE 30, 2013

	Pension Trust Fund (as of December 31, 2012)	Other Postemployment Benefit Trust Fund	Private Purpose Trust Funds	Agency Funds
ASSETS				
Cash and cash equivalents.....	\$ 686,933	\$ -	\$ 124,373	\$ 761,222
Investments:				
PRIT funds.....	96,187,295	1,101,668	-	-
Government sponsored enterprises.....	-	-	1,302,422	-
Receivables, net of allowance for uncollectibles:				
Intergovernmental.....	16,072	-	-	-
TOTAL ASSETS	96,890,300	1,101,668	1,426,795	761,222
LIABILITIES				
Warrants payable.....	2,975	-	-	-
Liabilities due depositors.....	-	-	-	761,222
TOTAL LIABILITIES	2,975	-	-	761,222
NET POSITION				
Held in trust for pension benefits.....	96,887,325	-	-	-
Held in trust for OPEB benefits.....	-	1,101,668	-	-
Held in trust for other purposes.....	-	-	1,426,795	-
	\$ 96,887,325	1,101,668	\$ 1,426,795	\$ -

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN NET POSITION

FISCAL YEAR ENDED JUNE 30, 2013

	Pension Trust Fund (as of December 31, 2012)	Other Postemployment Benefit Trust Fund	Private Purpose Trust Funds
ADDITIONS:			
Contributions:			
Employer.....	\$ 5,383,550	\$ 300,000	\$ -
Employee.....	3,232,068	-	-
Total contributions.....	8,615,618	300,000	-
Net investment income (loss):			
Net change in fair value of investments.....	8,994,324	-	192,269
Interest.....	2,879,330	95,420	2,739
Total investment income (loss).....	11,873,654	95,420	195,008
Less: investment expense.....	(480,953)	-	-
Net investment income (loss).....	11,392,701	95,420	195,008
Intergovernmental.....	102,465	-	-
Transfers from other systems.....	599,103	-	-
TOTAL ADDITIONS.....	20,709,887	395,420	195,008
DEDUCTIONS:			
Administration.....	220,531	-	-
Transfers to other systems.....	219,576	-	-
Retirement benefits and refunds.....	10,649,031	-	-
Educational scholarships.....	-	-	37,183
TOTAL DEDUCTIONS.....	11,089,138	-	37,183
CHANGE IN NET POSITION.....	9,620,749	395,420	157,825
NET POSITION AT BEGINNING OF YEAR.....	87,266,576	706,248	1,268,970
NET POSITION AT END OF YEAR.....	\$ 96,887,325	\$ 1,101,668	\$ 1,426,795

See notes to basic financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying basic financial statements of the Town of Andover, Massachusetts (the Town) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described herein.

A. Reporting Entity

The Town is a municipal corporation that is governed by an elected Board of Selectmen (the “Board”).

For financial reporting purposes, the Town has included all funds, organizations, agencies, boards, commissions and institutions. The Town has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the Town are such that exclusion would cause the basic financial statements to be misleading or incomplete. As required by GAAP, these basic financial statements present the Town (the primary government) and its component units. One entity has been included as a component unit in the reporting entity, because of the significance of its operational and/or financial relationship.

Joint Venture

A joint venture is an organization (resulting from a contractual arrangement) that is owned, operated and governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain an ongoing financial interest or ongoing financial responsibility. Joint control means that no single participant has the ability to unilaterally control the financial or operating policies of the joint venture.

The Town participates in the following joint venture with other municipalities to pool resources and share the costs, risks, and rewards of providing goods and services to venture participants directly, or for the benefit of the general public or specified recipients.

Greater Lawrence Regional Technical Vocational School (GLRTVS)

The GLRTVS is governed by a seven member school committee consisting of one elected representative from the Town. The Town is indirectly liable for the GLRTVS’ debt and other expenditures and is assessed annually for its share of operating and capital costs. The Town does not have an equity interest in the GLRTVS. For the fiscal year ended June 30, 2013, the Town’s assessment totaled \$399,331. Separate financial statements may be obtained by writing to the Treasurer of the GLRTVS at 57 River Road, Andover, MA 01810.

Component Unit Presented as a Fiduciary Fund – The following component unit is presented as a Fiduciary Fund of the primary government due to the nature and significance of the relationship between the Town and the component unit.

The Andover Contributory Retirement System (the System) was established to provide retirement benefits to Town employees, the Andover Housing Authority employees, and their beneficiaries. The System is governed by a five-member board comprised of the Town Accountant (ex-officio), two members elected by the System’s participants, one member appointed by the Town Manager and one member appointed by the other board members. The System is presented using the accrual basis of accounting and is reported as a pension trust fund in the fiduciary fund financial statements.

The System did not issue a separate audited financial statement. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth of Massachusetts’

(Commonwealth) Public Employee Retirement Administration Commission (PERAC). That report may be obtained by contacting the System located at 36 Bartlet Street, Andover, Massachusetts 01810.

Availability of Financial Information for Component Units

The System did not issue a separate audited financial statement. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth of Massachusetts' (Commonwealth) Public Employee Retirement Administration Commission (PERAC). That report may be obtained by contacting the System located at 36 Bartlet Street, Andover, Massachusetts 01810.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The government-wide financial statements (i.e., statement of net position and the statement of changes in net position) report information on all of the non-fiduciary activities of the primary government and its component units. *Governmental activities*, which are primarily supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which are supported primarily by user fees and charges.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and displayed in a single column.

Major Fund Criteria

Major funds must be reported if the following criteria are met:

- If the total assets, liabilities, revenues, or expenditures/expenses of an individual governmental or enterprise fund are at least 10 percent of the corresponding element (assets, liabilities, etc.) for all funds of that category or type (total governmental or total enterprise funds), *and*
- If the total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding element for all governmental and enterprise funds combined.

Additionally, any other governmental or enterprise fund that management believes is particularly significant to the basic financial statements may be reported as a major fund.

Internal service funds and fiduciary funds are reported by fund type.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation*Government-Wide Financial Statements*

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred. Real estate and personal property taxes are recognized as revenues in the fiscal year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of activities demonstrates the degree to which the direct expenses of a particular function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include the following:

- Charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment.
- Grants and contributions that are restricted to meeting the operational requirements of a particular function or segment.
- Grants and contributions that are restricted to meeting the capital requirements of a particular function or segment.

Taxes and other items not identifiable as program revenues are reported as general revenues.

For the most part, the effect of interfund activity has been removed from the government-wide financial statements. However, the effect of interfund services provided and used between functions is not eliminated as the elimination of these charges would distort the direct costs and program revenues reported for the functions affected.

Fund Financial Statements

Governmental fund financial statements are reported using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when the related liability is incurred, as under accrual accounting. However, debt service expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisition under capital leases are reported as other financing sources.

Real estate and personal property tax revenues are considered available if they are collected within 60 days after fiscal year-end. Investment income is susceptible to accrual. Other receipts and tax revenues become measurable and available when the cash is received and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria is met. Expenditure driven grants recognize revenue when the qualifying expenditures are incurred and all other grant requirements are met.

The following major governmental funds are reported:

The *general fund* is the primary operating fund. It is used to account for all financial resources, except those that are required to be accounted for in another fund.

The *school projects* fund is used to account for major school capital acquisition and construction projects. These projects will be funded through the issuance of long-term bonds and notes, state grants, and other available funds.

The *highway construction* fund is used to account for roadway improvements funded through the Massachusetts Department of Transportation.

The nonmajor governmental funds consist of other special revenue, capital projects and permanent funds that are aggregated and presented in the *nonmajor governmental funds* column on the governmental funds financial statements. The following describes the general use of these fund types:

The *special revenue fund* is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than permanent funds or capital projects.

The *capital projects fund* is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets of the governmental funds.

The *permanent fund* is used to account for and report financial resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the governmental programs.

Proprietary fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The following major proprietary funds are reported:

The *water enterprise fund* is used to account for the water activities.

The *sewer enterprise fund* is used to account for the sewer activities.

Additionally, the following proprietary fund type is reported:

The *internal service fund* is used to account for the financing of services provided by one department to other departments or governmental units. This fund is used to account for risk financing activities related to active employees' and retirees' health and life insurance, unemployment compensation, workers' compensation and general liability insurance.

Fiduciary fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting, except for agency funds which have no measurement focus. Fiduciary funds are used to account for assets held in a trustee capacity for others that cannot be used to support the governmental programs.

The following fiduciary fund types are reported:

The *pension trust fund* is used to account for the activities of the System, which accumulates resources to provide pension benefits to eligible retirees and their beneficiaries.

The *other postemployment benefit trust fund* accumulates resources to provide funding for future OPEB (other postemployment benefits) liabilities.

The *private-purpose trust fund* is used to account for trust arrangements that exclusively benefit individuals, private organizations, or other governments. Some of these trusts have donor restrictions and trustee policies that do not allow the endowment portion and any unrealized appreciation to be spent. The restrictions and trustee policies only allows the trustees to approve spending of the realized investment earnings. The Town's educational scholarships are accounted for in this fund.

The *agency fund* is used to account for assets held in a purely custodial capacity. The Town accounts for contractor's security deposits, local church deposits and receipts and disbursements on behalf of the Merrimack Valley Library Consortium in this fund.

D. Cash and Investments

Government-Wide and Fund Financial Statements

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition. Investments are carried at fair value. The fair values were determined by the closing price for those securities traded on national stock exchanges and at the average bid-and-asked quotation for those securities traded in the over-the-counter market.

E. Accounts Receivable

Government-Wide and Fund Financial Statements

The recognition of revenue related to accounts receivable reported in the government-wide financial statements and the proprietary funds and fiduciary funds financial statements are reported under the accrual basis of accounting. The recognition of revenue related to accounts receivable reported in the governmental funds financial statements are reported under the modified accrual basis of accounting.

Real Estate, Personal Property Taxes, and Tax Liens

Real estate and personal property taxes are levied and based on values assessed on January 1st of every year. Assessed values are established by the Board of Assessor's for 100% of the estimated fair market value. Taxes are due on August 1st, November 1st, February 1st and May 1st and are subject to penalties and interest if they are not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the fiscal year of the levy.

Real estate tax liens are processed six months after the close of the valuation year on delinquent properties and are recorded as receivables in the fiscal year they are processed.

Tax liens may be subject to a foreclosure if the tax liens are not paid in accordance with the period required by the law (M.G.L. Ch.60, §50). Foreclosure proceedings are processed by the Treasurer or other tax lien custodian. Foreclosed properties can then be sold through advertised public auction or held for use by the Town.

Real estate receivables are secured via the tax lien process and are considered 100% collectible. Accordingly, an allowance for uncollectibles is not reported.

Personal property taxes cannot be secured through the lien process. The allowance for uncollectibles is estimated based on historical trends and specific account analysis.

Motor Vehicle Excise

Motor vehicle excise taxes are assessed annually for each vehicle registered and are recorded as receivables in the fiscal year of the levy. The Commonwealth is responsible for reporting the number of vehicles registered and the fair values of those vehicles. The tax calculation is the fair value of the vehicle multiplied by \$25 per \$1,000 of value.

The allowance for uncollectibles is estimated based on historical trends and specific account analysis.

Water and Sewer User Fees

User fees are levied monthly based on individual meter readings and are subject to penalties and interest if they are not paid by the respective due date. Unbilled user fees are estimated at fiscal year-end and are recorded as revenue in the current period. Water and Sewer liens are processed in December of every year and are included as a lien on the property owner's tax bill. Water and Sewer charges and liens are recorded as receivables in the fiscal year of the levy.

Since the receivables are secured via the lien process, these accounts are considered 100% collectible and therefore do not report an allowance for uncollectibles.

Departmental and Other

Departmental and other receivables consist primarily of police details, fire details and ambulance receivables and are recorded as receivables in the fiscal year accrued. The allowance of uncollectibles is estimated based on historical trends and specific account analysis.

Intergovernmental

Various federal and state grants for operating and capital purposes are applied for and received annually. For non-expenditure driven grants, receivables are recorded as soon as all eligibility requirements imposed by the provider have been met. For expenditure driven grants, receivables are recorded when the qualifying expenditures are incurred and all other grant requirements are met.

These receivables are considered 100% collectible and therefore do not report an allowance for uncollectibles.

F. Inventories

Government-Wide and Fund Financial Statements

Inventories are recorded as expenditures at the time of purchase. Such inventories are not material in total to the government-wide and fund financial statements, and therefore are not reported.

G. Capital Assets*Government-Wide and Proprietary Fund Financial Statements*

Capital assets, which include land, buildings and improvements, machinery and equipment, vehicles, library books and infrastructure (e.g., roads, water mains, sewer mains, and similar items), are reported in the applicable governmental or business-type activity column of the government-wide financial statements, and the proprietary fund financial statements. Capital assets are recorded at historical cost, or at estimated historical cost, if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the date of donation. Except for the capital assets of the governmental activities column in the government-wide financial statements, construction period interest is capitalized on constructed capital assets.

All purchases and construction costs in excess of \$10,000 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year. Capital assets (excluding land and construction-in-progress) are depreciated on a straight-line basis. The estimated useful lives of capital assets are as follows:

<u>Capital Asset Type</u>	<u>Estimated Useful Life (in years)</u>
Buildings and building improvements.....	5-50
Machinery and equipment.....	3-20
Vehicles.....	5
Library books.....	10
Infrastructure.....	10-50

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized and are treated as expenses when incurred. Improvements are capitalized.

Governmental Fund Financial Statements

Capital asset costs are recorded as expenditures in the acquiring fund in the fiscal year of the purchase.

H. Deferred Outflows/Inflows of Resources*Government-Wide Financial Statements (Net Position)*

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The Town has no transactions that qualify for reporting in this category for fiscal year 2013.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Town has no transactions that would qualify for reporting in this category for fiscal year 2013.

I. Interfund Receivables and Payables

During the course of its operations, transactions occur between and within individual funds that may result in amounts owed between funds.

Government-Wide Financial Statements

Transactions of a buyer/seller nature between and within governmental funds and internal service funds are eliminated from the governmental activities in the statement of net position. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of net position as "internal balances".

Fund Financial Statements

Transactions of a buyer/seller nature between and within funds are *not* eliminated from the individual fund statements. Receivables and payables resulting from these transactions are classified as "Due from other funds" or "Due to other funds" on the balance sheet.

J. Interfund Transfers

During the course of its operations, resources are permanently reallocated between and within funds. These transactions are reported as transfers in and transfers out.

Government-Wide Financial Statements

Transfers between and within governmental funds and internal service funds are eliminated from the governmental activities in the statement of net position. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of activities as "Transfers, net".

Fund Financial Statements

Transfers between and within funds are *not* eliminated from the individual fund statements and are reported as transfers in and transfers out.

K. Deferred Revenue

Deferred revenue at the governmental fund financial statement level represents receivables that do not meet the available criterion in accordance with the current financial resources measurement focus and the modified accrual basis of accounting. Deferred revenue is recognized as revenue in the conversion to the government-wide (full accrual) financial statements.

L. Net Position and Fund Equity

Government-Wide Financial Statements (Net Position)

Net position is reported as restricted when amounts that are not available for appropriation or are legally restricted by outside parties for a specific future use. Net position has been "restricted for" the following:

"Permanent funds - expendable" represents the amount of realized and unrealized investment earnings of donor restricted trusts. The restrictions and trustee policies only allows the trustees to approve spending of the realized investment earnings.

“Permanent funds - nonexpendable” represents the endowment portion of donor restricted trusts that support governmental programs.

“Debt service” represents the amount accumulated for the future payment of general obligation bond principal and interest.

“Grants and gifts” represents assets that have restrictions placed on them from outside parties.

Sometimes the Town will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Town’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Fund Financial Statements (Fund Balances)

Governmental fund balances are classified as nonspendable, restricted, committed, assigned, or unassigned based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

The governmental fund balance classifications are as follows:

“Nonspendable” fund balance includes amounts that cannot be spent because they are either not in spendable form or they are legally or contractually required to be maintained intact.

“Restricted” fund balance includes amounts subject to constraints placed on the use of resources that is either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or that are imposed by law through constitutional provisions or enabling legislation.

“Committed” fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision-making authority. Town Meeting is the highest level of decision-making authority for the government that can, by adoption of an article, which constitutes the most binding restraint, prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the article remains in place until a similar action is taken to remove or revise the limitation.

“Assigned” fund balance includes amounts that are constrained by the Town’s intent to be used for specific purposes, but are neither restricted nor committed. The Board of Selectmen has by resolution authorized the Town Accountant to assign fund balance. The Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year’s budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment.

“Unassigned” fund balance includes the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

The Town's spending policy is to spend restricted fund balance first, followed by committed, assigned and unassigned fund balance. Most governmental funds are designated for one purpose at the time of their creation. Therefore, any expenditure from the fund will be allocated to the applicable fund balance classifications in the order of the aforementioned spending policy. The general fund and certain other funds may have more than one purpose.

M. Long-term debt

Government-Wide and Proprietary Fund Financial Statements

Long-term debt is reported as liabilities in the government-wide and proprietary fund statement of net position. Material bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported gross of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Governmental Fund Financial Statements

The face amount of governmental funds long-term debt is reported as other financing sources. Bond premiums and discounts, as well as issuance costs, are recognized in the current period. Bond premiums are reported as other financing sources and bond discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual bond proceeds received, are reported as general government expenditures.

N. Investment Income

Excluding the permanent funds, investment income derived from major and nonmajor governmental funds is legally assigned to the general fund unless otherwise directed by Massachusetts General Law (MGL).

O. Compensated Absences

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements, state laws and executive policies. Compensated absence liabilities related to both governmental and business-type activities are normally paid from the funds reporting payroll and related expenditures. Compensated absences are reported in governmental funds only if they have matured.

Government-Wide and Proprietary Fund Financial Statements

Vested or accumulated vacation and sick leave are reported as liabilities and expensed as incurred.

Governmental Fund Financial Statements

Vested or accumulated vacation and sick leave, which will be liquidated with expendable available financial resources, are reported as expenditures and fund liabilities upon maturity of the liability.

P. Fund Deficits

The workers compensation fund has a deficit of \$264,442 that will be funded by employer contributions.

Q. Use of Estimates*Government-Wide and Fund Financial Statements*

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure for contingent assets and liabilities at the date of the basic financial statements and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

R. Total Column*Government-Wide Financial Statements*

The total column presented on the government-wide financial statements represents consolidated financial information.

Fund Financial Statements

The total column on the fund financial statements is presented only to facilitate financial analysis. Data in this column is not the equivalent of consolidated financial information.

NOTE 2 - CASH AND INVESTMENTS

A cash and investment pool is maintained that is available for use by all funds. Each fund type's portion of this pool is displayed on the balance sheet as "Cash and Cash Equivalents". The deposits and investments of the trust funds are held separately from those of other funds.

Statutes authorize the investment in obligations of the U.S. Treasury, agencies, and instrumentalities, certificates of deposit (CD's), repurchase agreements, money market accounts, bank deposits and the State Treasurer's Investment Pool (the Pool). The Treasurer may also invest trust funds in securities, other than mortgages or collateral loans, which are legal for the investment of funds of savings banks under the laws of the Commonwealth. In addition, there are various restrictions limiting the amount and length of deposits and investments.

The Pool meets the criteria of an external investment pool. The Pool is administered by the Massachusetts Municipal Depository Trust (MMDT), which was established by the Treasurer of the Commonwealth who serves as Trustee. The fair value of the position in the Pool is the same as the value of the Pool shares.

The System participates in the Pension Reserve Investment Trust (PRIT), which meets the criteria of an external investment pool. PRIT is administered by the Pension Reserves Investment Management Board, which was established by the Treasurer of the Commonwealth of Massachusetts who serves as Trustee. The fair value of the position in the PRIT is the same as the value of the PRIT shares.

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Town of Andover's deposits may not be returned to it. The Town's policy allows unlimited deposits in bank accounts or CD's (up to one year maturity) that are fully collateralized through a third party agreement. For uncollateralized bank accounts and CD's, deposits may not exceed Federal Deposit Insurance Corporation (FDIC) or other deposit insurance coverage unless the bank has received the highest bank rating as determined by a recognized bank rating firm.

These deposits will be limited to no more than 5% of an institution's assets and no more than 10% of the Town's cash. This percentage may be increased for not more than 30 days during times of heavy collection or in anticipation of large payments that will be made by the Town in the near future. CD's will be purchased for no more than three months and will be reviewed frequently. The Town's policy also allows unlimited investments in money market funds, which are allowed by statute and are considered to be liquid funds.

At fiscal year-end, the carrying amount of deposits totaled \$42,726,678 and the bank balance totaled \$45,943,908. Of the bank balance, \$1,687,090 was covered by Federal Depository Insurance and \$44,256,818 was exposed to custodial credit risk because it was uninsured and uncollateralized.

At December 31, 2012, the carrying amount of deposits for the Retirement System totaled \$686,933 and the bank balance totaled \$729,462. The bank balance was covered by Federal Depository Insurance and none of the funds were exposed to custodial credit risk.

As of June 30, 2013, the Town of Andover had the following investments:

		Investment Maturities (in years)	
Investment Type	Fair Value	Less Than 1	1 to 5
<u>Debt Securities:</u>			
Government agencies.....	\$ 675,479	\$ 302,063	\$ 373,416
Government sponsored enterprises.....	9,054,578	1,220,078	7,834,500
Corporate bonds.....	<u>789,689</u>	<u>789,689</u>	<u>-</u>
Total debt securities.....	10,519,746	<u><u>\$ 2,311,830</u></u>	<u><u>\$ 8,207,916</u></u>
<u>Other Investments:</u>			
Money market mutual funds.....	905,911		
Equity securities.....	274,635		
Equity mutual funds.....	2,074,766		
MMDT.....	<u>1,634,374</u>		
Total investments.....	\$ 15,409,432		

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of a failure by the counterparty, the Town will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. Of the investments of \$675,479 in government agencies, \$9,054,578 in government sponsored enterprises, \$789,689 in corporate bonds and \$274,635 in equity securities, the Town has a custodial credit risk exposure of \$10,794,381 because the related securities are uninsured, unregistered and held by the counterparty. The Town's policy requires all securities, not held directly by the Town, to be held in the Town's name and tax identification number by a third party custodian approved by the Treasurer.

The System does not have any investments subject to custodial credit risk. The System does not have an investment policy for custodial credit risk.

Interest Rate Risk

The Town's investment policy limits investment maturities to one year, except for the trust funds which are not limited, as a means of managing its exposure to fair value losses arising from increasing interest rates. The System does not have formal investment policies that limit investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates.

As of December 31, 2012, the Retirement System had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>
PRIT.....	\$ <u>96,187,295</u>

The Town participates in MMDT, which maintains a cash portfolio and a short-term bond fund with combined average maturities of approximately 3 months.

The System participates in PRIT. The effective weighted duration rate for PRIT investments ranged from .08 to 10.37 years.

Credit Risk

The Town's investment policy limits investments in debt securities to United States Treasuries and Agency obligations, which carry a AA+ rating and other investments that must be in high grade securities, a high concentration of which must be rated A and above. Standard & Poor's Investors Service rated the \$789,689 of corporate bonds AA+; \$1,634,374 of MMDT shares, \$905,911 of money market mutual funds and \$2,074,766 of equity mutual funds were unrated.

The Retirement System has not adopted a formal policy related to Credit Risk and \$96,187,295 of PRIT shares were unrated.

Concentration of Credit Risk

The Town will minimize the concentration of credit risk by diversifying the investment portfolio, so that the impact of potential losses from any one type of security or issuer will be minimized. No more than 5% of the Town's investments are invested in any one issuer.

The System places no limit on the amount the System may invest in any one issuer. The System did not have any investments that were subject to concentration of credit risk.

NOTE 3 – RECEIVABLES

At June 30, 2013, receivables for the individual major and non-major governmental funds including the applicable allowances for uncollectible accounts are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 2,074,638	\$ -	\$ 2,074,638
Real estate tax deferrals.....	223,742	-	223,742
Tax liens.....	1,634,203	-	1,634,203
Motor vehicle and other excise taxes.....	1,364,374	(628,185)	736,189
Departmental and other.....	625,344	(60,000)	565,344
Intergovernmental.....	12,427,133	-	12,427,133
Total.....	<u>\$ 18,349,434</u>	<u>\$ (688,185)</u>	<u>\$ 17,661,249</u>

At June 30, 2013, receivables for the water and sewer enterprise consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Water user fees.....	\$ 2,895,405	\$ -	\$ 2,895,405
Sewer user fees.....	1,686,699	-	1,686,699
Water liens.....	17,339	-	17,339
Sewer liens.....	7,431	-	7,431
Sewer special assessments.....	10,090,816	-	10,090,816
Total.....	<u>\$ 14,697,690</u>	<u>\$ -</u>	<u>\$ 14,697,690</u>

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of *deferred revenue* reported in the governmental funds were as follows:

	General Fund	Other Governmental Funds	Total
<u>Receivable and other asset type:</u>			
Real estate and personal property taxes.....	\$ 1,690,903	\$ -	\$ 1,690,903
Real estate tax deferrals.....	223,742	-	223,742
Tax liens.....	1,634,203	-	1,634,203
Motor vehicle and other excise.....	736,189	-	736,189
Departmental.....	452,678	109,609	562,287
Intergovernmental.....	5,532,244	5,351,100	10,883,344
Tax foreclosure.....	250,160	-	250,160
Total.....	<u>\$ 10,520,119</u>	<u>\$ 5,460,709</u>	<u>\$ 15,980,828</u>

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 29,903,293	\$ -	\$ -	\$ 29,903,293
Construction in progress.....	5,373,877	16,522,086	(392,470)	21,503,493
Total capital assets not being depreciated.....	35,277,170	16,522,086	(392,470)	51,406,786
<u>Capital assets being depreciated:</u>				
Buildings and building improvements.....	137,061,570	2,977,064	-	140,038,634
Machinery and equipment.....	10,230,109	1,863,494	(40,908)	12,052,695
Land improvements.....	20,784,162	-	-	20,784,162
Infrastructure.....	36,902,614	1,090,935	-	37,993,549
Vehicles.....	5,829,687	490,868	(280,694)	6,039,861
Library books.....	6,477,852	329,918	-	6,807,770
Total capital assets being depreciated.....	217,285,994	6,752,279	(321,602)	223,716,671
<u>Less accumulated depreciation for:</u>				
Buildings and building improvements.....	(72,667,259)	(2,715,420)	-	(75,382,679)
Machinery and equipment.....	(7,449,116)	(947,027)	40,908	(8,355,235)
Land improvements.....	(4,735,962)	(1,031,752)	-	(5,767,714)
Infrastructure.....	(22,217,190)	(848,878)	-	(23,066,068)
Vehicles.....	(3,725,736)	(486,060)	280,694	(3,931,102)
Library books.....	(4,909,618)	(299,598)	-	(5,209,216)
Total accumulated depreciation.....	(115,704,881)	(6,328,735)	321,602	(121,712,014)
Total capital assets being depreciated, net.....	101,581,113	423,544	-	102,004,657
Total governmental activities capital assets, net.....	\$ 136,858,283	\$ 16,945,630	\$ (392,470)	\$ 153,411,443

	Beginning Balance	Increases	Decreases	Ending Balance
Water Business-Type Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 266,017	\$ -	\$ -	\$ 266,017
<u>Capital assets being depreciated:</u>				
Buildings and building improvements.....	40,000	-	-	40,000
Machinery and equipment.....	2,548,149	309,938	-	2,858,087
Land improvements.....	883,276	-	-	883,276
Infrastructure.....	81,264,377	77,393	-	81,341,770
Vehicles.....	233,191	77,372	(28,390)	282,173
Total capital assets being depreciated.....	84,968,993	464,703	(28,390)	85,405,306
<u>Less accumulated depreciation for:</u>				
Buildings and building improvements.....	(40,000)	-	-	(40,000)
Machinery and equipment.....	(725,156)	(115,359)	-	(840,515)
Land improvements.....	(71,425)	(23,396)	-	(94,821)
Infrastructure.....	(47,001,536)	(1,730,729)	-	(48,732,265)
Vehicles.....	(227,603)	(10,236)	28,390	(209,449)
Total accumulated depreciation.....	(48,065,720)	(1,879,720)	28,390	(49,917,050)
Total capital assets being depreciated, net.....	36,903,273	(1,415,017)	-	35,488,256
Total water business-type activities capital assets, net.....	\$ 37,169,290	\$ (1,415,017)	\$ -	\$ 35,754,273

	Beginning Balance	Increases	Decreases	Ending Balance
Sewer Business-Type Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 115,130	\$ -	\$ -	\$ 115,130
Construction in progress.....	284,113	8,533	(258,120)	34,526
Total capital assets not being depreciated.....	399,243	8,533	(258,120)	149,656
<u>Capital assets being depreciated:</u>				
Buildings and building improvements.....	1,281,181	-	-	1,281,181
Machinery and equipment.....	1,083,123	85,000	-	1,168,123
Infrastructure.....	52,647,008	397,797	-	53,044,805
Vehicles.....	91,351	242,156	(52,742)	280,765
Total capital assets being depreciated.....	55,102,663	724,953	(52,742)	55,774,874
<u>Less accumulated depreciation for:</u>				
Buildings and building improvements.....	(976,902)	(34,935)	-	(1,011,837)
Machinery and equipment.....	(242,125)	(58,569)	-	(300,694)
Infrastructure.....	(14,608,384)	(1,050,779)	-	(15,659,163)
Vehicles.....	(91,351)	(15,976)	52,742	(54,585)
Total accumulated depreciation.....	(15,918,762)	(1,160,259)	52,742	(17,026,279)
Total capital assets being depreciated, net.....	39,183,901	(435,306)	-	38,748,595
Total sewer business-type activities capital assets, net.....	\$ 39,583,144	\$ (426,773)	\$ (258,120)	\$ 38,898,251

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:

General government.....	\$ 281,758
Public safety.....	750,565
Education.....	3,494,456
Municipal services.....	1,250,085
Community services.....	425,167
Library.....	<u>126,704</u>

Total depreciation expense - governmental activities..... \$ 6,328,735

Business-Type Activities:

Water.....	\$ 1,879,720
Sewer.....	<u>1,160,259</u>

Total depreciation expense - business-type activities..... \$ 3,039,979

NOTE 5 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

As of June 30, 2013, the Town has governmental receivables and payables totaling \$3,795. This balance is the result of the general fund covering short-term cash flow needs of the highway construction fund that will be funded by future grant proceeds.

Interfund transfers for the fiscal year ended June 30, 2013, are summarized as follows:

Transfers Out:	Transfers In:					Total
	General Fund	School Projects	Nonmajor Governmental Funds	Water Enterprise Fund	Sewer Enterprise Fund	
General Fund.....	\$ -	\$ 130,000	\$ 2,815,000	55,000	17,500	\$ 3,017,500 (1)
Nonmajor Governmental Funds.....	59,000	218,300	66,000	-	-	343,300 (2)
Water Enterprise Fund.....	1,151,024	-	-	-	-	1,151,024 (3)
Sewer Enterprise Fund.....	<u>449,736</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>449,736 (3)</u>
Total.....	<u>\$ 1,659,760</u>	<u>\$ 348,300</u>	<u>\$ 2,881,000</u>	<u>\$ 55,000</u>	<u>\$ 17,500</u>	<u>\$ 4,961,560</u>

- (1) Includes budgeted transfers to the capital projects fund for current year capital articles totaling \$2,945,000. Also includes transfers to the water and sewer enterprise funds totaling \$72,500 to fund water and sewer salary increases.
- (2) Includes budgeted transfers from Wetland Filing Fees and Off Street Parking to the general fund, as well as various transfers between Nonmajor Governmental funds and the School Projects fund.
- (3) Includes budgeted transfers of indirect costs to the general fund.

NOTE 6 – SHORT-TERM FINANCING

Short-term debt may be authorized and issued to fund the following:

- Current operating costs prior to the collection of revenues through issuance of revenue or tax anticipation notes (RANS or TANS).
- Capital project costs and other approved expenditures incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BANS) or grant anticipation notes (GANS).

Short-term loans are general obligations and carry maturity dates that are limited by statute. Interest expenditures and expenses for short-term borrowings are accounted for in the general fund and enterprise funds, respectively.

Details related to the short-term debt activity for the fiscal year ended June 30, 2013, is as follows:

Governmental Funds				Balance at			Balance at
Type	Purpose	Rate (%)	Due Date	June 30, 2012	Renewed/ Issued	Retired/ Redeemed	June 30, 2013
BAN	Bancroft school.....	1.50%	12/20/12	\$ 2,000,000	\$ -	\$ 2,000,000	\$ -

NOTE 7 - LONG-TERM DEBT

Under the provisions of Chapter 44, Section 10, Municipal Law authorizes indebtedness up to a limit of 5% of the equalized valuation. Debt issued in accordance with this section of the law is designated as being "inside the debt limit". In addition, however, debt may be authorized in excess of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit".

In order to take advantage of favorable interest rates, the Town issued \$4,595,000 of General Obligation Refunding Bonds on December 19, 2012. \$4,850,000 of general obligation bonds were advance refunded by placing the proceeds of the refunding bonds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net position. The reacquisition price exceeded the net carrying amount of the old debt by \$459,590. This amount is being netted against the new debt and amortized over the life of the refunding debt, which is the same as the remaining life of the refunded debt. This advance refunding was undertaken to reduce total debt service payments over the next 12 years by \$462,187 and resulted in an economic gain of \$411,232. At June 30, 2013, \$4,850,000 of bonds outstanding from the advance refunding is considered defeased.

Details related to the outstanding indebtedness at June 30, 2013, and the debt service requirements are as follows:

Bonds Payable Schedule – Governmental Funds

Project	Maturities Through	Original Loan Amount	Interest Rate (%)	Outstanding at June 30, 2012	Issued	Redeemed	Outstanding at June 30, 2013
Public safety.....	2029	\$ 26,859,300	2.00 - 5.00	\$ 7,112,000	\$ 193,300	\$ 1,057,000	\$ 6,248,300 (1)
School projects.....	2033	106,545,512	2.00 - 5.72	30,120,699	17,632,900	5,862,900	41,890,699 (1)
Municipal services.....	2033	36,554,000	2.75 - 5.13	7,040,000	5,025,000	844,000	11,221,000 (2)
Land acquisition.....	2031	8,887,100	3.50 - 5.98	5,730,000	1,127,100	1,615,000	5,242,100 (1)
Culture and recreation.....	2019	6,993,000	2.75 - 5.00	235,000	-	35,000	200,000 (1)
Total governmental bonds payable.....				50,237,699	23,978,300	9,413,900	64,802,099
Add: unamortized premium.....				1,307,955	2,256,730	269,751	3,294,934
Less: deferred charges on refunding.....				(808,456)	357,244	193,687	(972,013)
Total governmental bonds payable, net.....				\$ 50,737,198	\$ 26,592,274	\$ 9,877,338	\$ 67,125,020

(1) Debt issued to finance Town capital expenditures.

(2) Debt issued to finance Town capital expenditures with the exception of \$1.6 million for landfill closure.

Debt service requirements for principal and interest for governmental bonds payable in future fiscal years are as follows:

Fiscal Year	Principal	Interest	Total
2014.....	\$ 6,764,641	\$ 2,247,322	\$ 9,011,963
2015.....	6,522,468	2,004,035	8,526,503
2016.....	6,447,443	1,782,792	8,230,235
2017.....	5,431,625	1,572,476	7,004,101
2018.....	4,492,266	1,404,947	5,897,213
2019.....	4,317,716	1,230,656	5,548,372
2020.....	3,988,175	1,083,586	5,071,761
2021.....	3,788,643	941,249	4,729,892
2022.....	3,359,120	803,716	4,162,836
2023.....	2,884,608	679,181	3,563,789
2024.....	2,465,105	577,899	3,043,004
2025.....	2,395,862	484,328	2,880,190
2026.....	2,316,129	391,481	2,707,610
2027.....	2,026,657	306,956	2,333,613
2028.....	1,857,196	229,647	2,086,843
2029.....	1,502,745	167,920	1,670,665
2030.....	1,303,306	120,638	1,423,944
2031.....	1,153,878	80,237	1,234,115
2032.....	989,461	46,139	1,035,600
2033.....	795,055	21,339	816,394
Totals.....	\$ 64,802,099	\$ 16,176,541	\$ 80,978,640

Bonds Payable Schedule – Enterprise Funds

Project	Maturities Through	Original Loan Amount	Interest Rate (%)	Outstanding at June 30, 2012	Issued	Redeemed	Outstanding at June 30, 2013
Sewer projects.....	2033	\$ 110,073,550	2.75 - 5.00	\$ 23,497,900	\$ 2,336,650	\$ 2,829,700	\$ 23,004,850 (1)
Water projects.....	2033	21,007,602	2.00 - 5.61	10,233,382	835,050	1,077,185	9,991,247 (1)
Total enterprise bonds payable.....				33,731,282	3,171,700	3,906,885	32,996,097
Add: unamortized premium.....				748,371	371,957	142,057	978,271
Less: deferred charges on refunding.....				(529,960)	102,346	93,543	(538,763)
Total enterprise bonds payable, net.....				\$ 33,949,693	\$ 3,646,003	\$ 4,142,485	\$ 33,435,605

(1) Debt issued to finance Town capital expenditures.

Debt service requirements for principal and interest for enterprise fund bonds payable in future fiscal years are as follows:

Fiscal Year	Principal	Interest	Total
2014.....	\$ 2,675,129	\$ 1,107,008	\$ 3,782,137
2015.....	2,673,070	1,018,674	3,691,744
2016.....	2,663,563	928,801	3,592,364
2017.....	2,634,956	836,554	3,471,510
2018.....	2,615,004	748,742	3,363,746
2019.....	2,610,358	652,176	3,262,534
2020.....	2,645,819	551,426	3,197,245
2021.....	2,636,391	459,989	3,096,380
2022.....	2,562,076	370,154	2,932,230
2023.....	2,077,876	289,147	2,367,023
2024.....	1,848,792	226,321	2,075,113
2025.....	1,384,579	170,974	1,555,553
2026.....	1,285,987	122,767	1,408,754
2027.....	1,292,268	76,756	1,369,024
2028.....	677,238	40,179	717,417
2029.....	282,991	22,028	305,019
2030.....	125,000	12,360	137,360
2031.....	125,000	8,570	133,570
2032.....	100,000	4,730	104,730
2033.....	80,000	2,196	82,196
Totals.....	\$ 32,996,097	\$ 7,649,553	\$ 40,645,650

The Commonwealth has approved school construction assistance. The assistance program, which is administered by the Massachusetts School Building Authority, provides resources for future debt service of general obligation school bonds outstanding. During fiscal year 2013, approximately \$1,551,000 of such assistance was received. Approximately \$5,796,000 will be received in future fiscal years. Of this amount, approximately \$264,000 represents reimbursement of long-term interest costs, and approximately \$5,532,000 represents reimbursement of approved construction costs. Accordingly, a \$5,532,000 intergovernmental receivable and corresponding deferred revenue have been reported in the governmental fund financial statements. The deferred revenue has been recognized as revenue in the conversion to the government-wide financial statements.

Beginning in 2005 the Commonwealth changed the method for funding the school building assistance program. Under the new program, the assistance is paid to support construction costs and reduce the total debt service of the Town. Through the end of fiscal year 2013, the Town has recorded capital grant proceeds totaling \$6.8 million, from the MSBA, which is equal to 44% of approved construction costs submitted for reimbursement. The Town anticipates receiving an additional \$2.7 million of grant proceeds in fiscal 2014.

The Town is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. At June 30, 2013, the Town had the following authorized and unissued debt:

Purpose	Amount
Land acquisition.....	\$ 2,525,000
Landfill.....	7,770,000
Municipal buildings.....	2,300,000
Technology.....	500,000
Public works.....	1,000,000
School projects.....	40,200,000
Sewer projects.....	2,550,000
Water projects.....	4,879,000
Total.....	<u>\$ 61,724,000</u>

Changes in Long-term Liabilities

During the fiscal year ended June 30, 2013, the following changes occurred in long-term liabilities:

	Ending Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Long-term bonds payable.....	\$ 50,237,699	\$ 23,978,300	\$ (9,413,900)	\$ 64,802,099	\$ 6,764,641
Add: unamortized premium.....	1,307,955	2,256,730	(269,751)	3,294,934	469,811
Less: deferred charges on refunding.....	(808,456)	(357,244)	193,687	(972,013)	(199,925)
Total bonds payable.....	50,737,198	25,877,786	(9,489,964)	67,125,020	7,034,527
Other postemployment benefits.....	45,672,000	11,742,000	(5,385,000)	52,029,000	-
Workers' compensation.....	346,000	109,000	(116,000)	339,000	34,000
Compensated absences.....	4,572,000	1,455,000	(1,282,000)	4,745,000	1,426,000
Landfill closure.....	13,752,000	761,000	(71,000)	14,442,000	171,000
Total governmental activity long-term liabilities.....	<u>\$ 115,079,198</u>	<u>\$ 39,944,786</u>	<u>\$ (16,343,964)</u>	<u>\$ 138,680,020</u>	<u>\$ 8,665,527</u>
Business-Type Activities:					
Long-term bonds payable.....	\$ 33,731,282	\$ 3,171,700	\$ (3,906,885)	\$ 32,996,097	\$ 2,675,129
Add: unamortized premium.....	748,371	371,957	(142,057)	978,271	166,347
Less: deferred charges on refunding.....	(529,960)	(102,346)	93,543	(538,763)	(98,366)
Total bonds payable.....	33,949,693	3,441,311	(3,955,399)	33,435,605	2,743,110
Other postemployment benefits.....	984,000	283,000	(108,000)	1,159,000	-
Compensated absences.....	368,000	141,000	(111,000)	398,000	122,000
Total business-type activity long-term liabilities.....	<u>\$ 35,301,693</u>	<u>\$ 3,865,311</u>	<u>\$ (4,174,399)</u>	<u>\$ 34,992,605</u>	<u>\$ 2,865,110</u>

Internal service funds predominantly serve the governmental funds. Accordingly, the internal service fund's long-term liabilities are included as part of the governmental activities totals above and include accrued liabilities totaling \$339,000 for workers' compensation. Except for the amounts related to the internal service funds, the governmental activities long-term liabilities are generally liquidated by the general fund and the business-type activities long-term liabilities are generally liquidated by the applicable enterprise fund.

NOTE 8 – GOVERNMENTAL FUND BALANCE CLASSIFICATIONS

The Town has adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The intention of the GASB is to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the Town's financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources.

GASB 54 provides for two major types of fund balances, which are nonspendable and spendable. Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Examples of this classification are prepaid items, inventories, and principal (corpus) of an endowment fund. The Town has reported principal portions of endowment funds as nonspendable.

In addition to the nonspendable fund balance, GASB 54 has provided a hierarchy of spendable fund balances, based on a hierarchy of spending constraints.

- Restricted: fund balances that are constrained by external parties, constitutional provisions, or enabling legislation.
- Committed: fund balances that contain self-imposed constraints of the government from its highest level of decision making authority.
- Assigned: fund balances that contain self-imposed constraints of the government to be used for a particular purpose.
- Unassigned: fund balance of the general fund that is not constrained for any particular purpose.

Massachusetts General Law Ch. 40 §5B allows for the establishment of Stabilization funds for one or more different purposes. The creation of a fund requires a two-thirds vote of the legislative body and must clearly define the purpose of the fund. Any change to the purpose of the fund along with any additions to or appropriations from the fund requires a two-thirds vote of the legislative body. At fiscal year-end, the balance of the general stabilization fund is \$7,248,616 and is reported as unassigned fund balance within the General Fund.

As of June 30, 2013, the governmental fund balances consisted of the following:

	GOVERNMENTAL FUNDS			
	General	School Projects	Nonmajor Governmental Funds	Total Governmental Funds
FUND BALANCES				
Nonspendable:				
Cemetery.....	\$ -	\$ -	\$ 886,857	\$ 886,857
Library.....	-	-	5,000	5,000
Town welfare/other.....	-	-	386,629	386,629
Restricted for:				
Town grants/other revolving.....	-	-	6,050,584	6,050,584
School grants/other revolving.....	-	-	3,178,469	3,178,469
School projects.....	-	968,722	-	968,722
School lunch.....	-	-	369,535	369,535
Road/drainage projects.....	-	-	6,761,681	6,761,681
Conservation.....	-	-	117,735	117,735
Municipal buildings.....	-	-	670,485	670,485
Other.....	-	-	611,268	611,268
Cemetery.....	-	-	194,282	194,282
Library.....	-	-	70,102	70,102
Town welfare/other.....	-	-	282,152	282,152
Debt service.....	1,092,228	-	-	1,092,228
Committed to:				
General government.....	80,000	-	-	80,000
Municipal services.....	1,461	-	-	1,461
Community services.....	19,273	-	-	19,273
Assigned to:				
General government.....	109,464	-	-	109,464
Public safety.....	193,042	-	-	193,042
Education.....	718,754	-	-	718,754
Municipal services.....	136,323	-	-	136,323
Community services.....	10,767	-	-	10,767
Library.....	13,021	-	-	13,021
Unassigned.....	12,715,770	-	-	12,715,770
TOTAL FUND BALANCES.....	\$ 15,090,103	\$ 968,722	\$ 19,584,779	\$ 35,643,604

NOTE 9 – RISK FINANCING

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Town carries commercial insurance. In addition, the Town is self-insured for damages not covered by commercial insurance. The amount of claim settlements has not exceeded insurance coverage in any of the previous three fiscal years.

The Town participates in premium-based health care plans for its active employees and retirees. The Town is self-insured for its workers' compensation and unemployment compensation activities. Settlements have not exceeded coverage for each of the past three fiscal years. These activities are accounted for in the Town's internal service fund where revenues are recorded when earned and expenses are recorded when the liability is incurred. The incurred but not reported liability related to unemployment claims is immaterial and therefore not recorded.

Workers' Compensation

The Town participates in a Retrospective Rating Plan for which the Town employs a third party administrator. Workers' compensation claims are administered by the third party administrator and are funded on a pay-as-you-go basis from annual appropriations. The estimated future workers' compensation liability is based on history and injury type.

At June 30, 2013, the amount of the liability for workers' compensation claims totaled \$339,000. Changes in the reported liability since July 1, 2011, are as follows:

	Balance at Beginning of Fiscal Year	Current Year Claims and Changes in Estimate	Claims Payments	Balance at Fiscal Year-End	Current Portion
Fiscal Year 2012.....	\$ 384,000	\$ 91,000	\$ (129,000)	\$ 346,000	\$ 35,000
Fiscal Year 2013.....	346,000	109,000	(116,000)	339,000	34,000

NOTE 10 – PENSION PLAN

Plan Description - The Town contributes to the System, a cost-sharing multiple-employer defined benefit pension plan administered by the Andover Contributory Retirement Board. Substantially all employees are members of the System, except for public school teachers and certain administrators who are members of the Massachusetts Teachers Retirement System, to which the Town does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are the legal responsibility of the Commonwealth. The amount of these on-behalf payments totaled approximately \$13,247,971 for the fiscal year ended June 30, 2013, and, accordingly, are reported in the general fund as intergovernmental revenues and pension expenditures.

The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. Cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be approved by the Andover Contributory Retirement Board and are borne by the System. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth's PERAC. That report may be obtained by contacting the System located at 36 Bartlet Street, Andover, Massachusetts 01810.

At December 31, 2012, the System's membership consists of the following:

Active members.....	729
Inactive members.....	127
Disabled members.....	39
Retirees and beneficiaries currently receiving benefits.....	<u>355</u>
Total.....	<u><u>1,250</u></u>

Funding Policy - Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the System its share of the system-wide actuarial determined contribution that is apportioned among the employers based on active current payroll. Administrative expenses are funded through investment earnings. The current and two preceding fiscal years

apportionment of the annual pension cost between the two employers required the Town to contribute 99%, respectively, of the total. Chapter 32 of the MGL governs the contributions of plan members and the Town.

Annual Pension Cost - The Town's contributions to the System for the fiscal years ended June 30, 2013, 2012, and 2011 were \$5,495,131, \$5,085,067, and \$4,712,555, respectively, which equaled its required contribution for each fiscal year. At June 30, 2013, the Town did not have a net pension obligation. The required contribution was determined as part of the January 1, 2012, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included a 7.75% investment rate of return and projected salary increases ranging from 7.00% decreasing to 4.75% after 9 years of service for group 1, ranging from 7.00% decreasing to 5.00% after 7 years of service for group 2, and ranging from 8.00% decreasing to 5.25% after 8 years for group 4 employees. The actuarial value of the System's assets is determined in accordance with the deferred recognition method. The System's unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an increasing basis. The remaining amortization period at June 30, 2013, was 27 years. The System is scheduled to be fully funded by 2040 which meets the MGL requirement of full funding by fiscal 2014. The Town's funded rate was 49.7% as of the most recent actuarial valuation.

Schedule of Funding Progress
(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
01/01/12	\$ 95,692	\$ 192,534	\$ 96,842	50%	\$ 34,436	281%
01/01/10	92,289	167,447	75,158	55%	32,416	232%
01/01/07	99,953	136,899	36,946	73%	30,468	121%
01/01/04	81,431	104,232	22,801	78%	27,551	83%
01/01/01	69,752	86,928	17,176	80%	24,596	70%
01/01/99	59,350	76,915	17,565	77%	21,631	81%

Funding progress is reported based on the actuarial valuation performed by the System. The Town is responsible for approximately 99% of the unfunded liability.

The schedule of funding progress, presented as required supplementary information, following the notes to the basic financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Additionally, the schedule of employer contributions, presented as required supplementary information, following the notes to the basic financial statements, presents multiyear trend information for required and actual contributions relating to the cost-sharing plan as a whole, of which the Town is one participating employer, as well as the Town's proportionate share of the plan's annual contributions. This information is designed to be helpful for understanding the scale of the information presented relative to the Town.

NOTE 11 – LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

State and federal laws and regulations require the Town to close its old landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site after closure. The Town had operated a solid waste landfill that ceased operations in 1973. The Town has reflected \$14.4 million as the estimate of the landfill closure liability at June 30, 2013, in the government-wide financial statements governmental activities.

This amount is based on estimates of what it would cost to perform all future closure and post closure care. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

NOTE 12 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description – The Town of Andover administers a single-employer defined benefit healthcare plan (“the Retiree Health Plan”). The plan provides lifetime healthcare insurance and life insurance for eligible retirees and their spouses through the Town’s group health and life insurance plans, which covers both active and retired members. Chapter 32B of the MGL assigns authority to establish and amend benefit provisions of the plan.

Benefit provisions are negotiated between the Town and the unions representing Town employees and are renegotiated each bargaining period. The Retiree Health Plan does not issue a publicly available financial report.

Funding Policy – Contribution requirements are also negotiated between the Town and union representatives. The required contribution is based on a pay-as-you-go financing requirement. The Town contributes a variable portion of the cost of current-year premiums, which varies by plan, for eligible retired plan members and their spouses. Plan members receiving benefits contribute the remaining portion of their premium costs.

The Commonwealth of Massachusetts passed legislation that has allowed the Town to establish the postemployment benefit trust fund to begin pre-funding its OPEB liabilities. During fiscal year 2013, the Town contributed an additional \$300,000 to pre-fund future OPEB obligations.

Annual OPEB Cost and Net OPEB Obligation – The Town’s annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The components of the Town’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Town’s net OPEB obligation are summarized in the following table:

Annual required contribution.....	\$ 11,423,000
Interest on net OPEB obligation.....	2,683,000
Adjustment to annual required contribution.....	<u>(2,081,000)</u>
Annual OPEB cost (expense).....	12,025,000
Contributions made.....	<u>(5,493,000)</u>
Increase in net OPEB obligation.....	6,532,000
Net OPEB obligation-beginning of year.....	<u>46,656,000</u>
Net OPEB obligation-end of year.....	<u>\$ 53,188,000</u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2013 was as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2013	\$ 12,025,000	\$ 46%	\$ 53,188,000
6/30/2012	16,888,000	36%	46,656,000
6/30/2011	15,704,000	37%	35,843,000

Funded Status and Funding Progress – As of June 30, 2013, the most recent actuarial valuation date, the actuarial accrued liability for benefits totaled \$145.9 million. The Town had funded \$1.1 million, which resulted in a funded ratio of 0.8% and the unfunded actuarial accrued liability for benefits totaled \$144.8 million.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress and employer contributions, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions – Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2013 actuarial valuation, actuarial liabilities were determined using the projected unit credit cost method. The actuarial assumptions included a 5.75% investment return assumption, which is based on the expected yield on the assets of the Town, calculated based on the funded level of the plan at the valuation date, and an annual medical care inflation rate of 8.5% initially, graded to 5% over 7 years. The UAAL is being amortized over a 30-year period, using the level percentage of projected payroll method, on an open basis, with amortization payments increasing at 3.75% per year. The remaining amortization period at June 30, 2013 is 29 years.

NOTE 13 – COMMITMENTS

The Town has contracted with Allied Waste (formerly BFI) for refuse collection and hauling through June 30, 2013. The fiscal 2013 cost to the Town under the Allied contract is approximately \$955,000.

The Town has contracted with Integrated Paper for recycling collection and hauling through June 30, 2013. The fiscal 2013 cost to the Town under the Integrated Paper contract is approximately \$331,000.

The Town has entered into or is planning to enter into contracts totaling approximately \$49.5 million for the construction of the new Bancroft elementary school. The Town has expended approximately \$19.7 million as of June 30, 2013 towards completion of the project.

The Town has entered into or is planning to enter into contracts totaling approximately \$56.4 million for the construction of various water and sewer infrastructure projects. The Town has expended approximately \$43.5 million as of June 30, 2013 to complete the projects.

NOTE 14 - CONTINGENCIES

The Town participates in a number of federal award programs. Although the grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments of 1996 through June 30, 2013, these programs are still subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although it is expected such amounts, if any, to be immaterial.

Various legal actions and claims are pending. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable. Although the amount of liability, if any, at June 30, 2013, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2013.

NOTE 15 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During fiscal year 2013, the following GASB pronouncements were implemented:

- GASB Statement #60, *Accounting and Financial Reporting for Service Concession Arrangements*. The implementation of this pronouncement did not impact the basic financial statements.
- GASB Statement #61, *The Financial Reporting Entity: Omnibus*. The implementation of this pronouncement did not impact the basic financial statements.
- GASB Statement #63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Financial statement changes include net assets changing to net position and invested in capital assets, net of related debt changing to net investment in capital assets. Notes to the basic financial statements were changed to provide additional disclosure on deferred outflows of resources and deferred inflows of resources.
- GASB Statement #66, *Technical Corrections – 2012, an amendment of GASB Statements No. 10 and No. 62*. The implementation of this pronouncement did not impact the basic financial statements.

The following GASB pronouncements will be implemented in future fiscal years.

- The GASB issued Statement #65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented in fiscal year 2014.
- The GASB issued Statement #67, *Financial Reporting for Pension Plans*, which is required to be implemented in fiscal year 2014.
- The GASB issued Statement #68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 25*, which is required to be implemented in fiscal year 2015.

- The GASB issued Statement #69, *Government Combinations and Disposals of Government Operations*, an amendment of GASB Statement No. 27, which is required to be implemented in fiscal year 2015.
- The GASB issued Statement #70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which is required to be implemented in fiscal year 2014.

Management is currently assessing the impact the implementation of these pronouncements will have on the basic financial statements.

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(Date of Delivery)

David J. Reilly, Treasurer
Town of Andover
Andover, Massachusetts

\$27,791,000
Town of Andover, Massachusetts
General Obligation Municipal Purpose Loan of 2014 Bonds
Dated March 6, 2014

We have acted as bond counsel to the Town of Andover, Massachusetts (the "Town") in connection with the issuance by the Town of the above-referenced bonds (the "Bonds"). In such capacity, we have examined the law and such certified proceedings and other papers as we have deemed necessary to render this opinion.

As to questions of fact material to our opinion we have relied upon representations and covenants of the Town contained in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

Based on our examination, we are of the opinion, under existing law, as follows:

1. The Bonds are valid and binding general obligations of the Town and, except to the extent they are paid from other sources, the principal of and interest on the Bonds are payable from taxes which may be levied upon all taxable property in the Town, without limitation as to rate or amount, except as provided under Chapter 44, Section 20 of the General Laws, with respect to that portion of the principal and interest payments that the Town has voted to exempt from the limit imposed by Chapter 59, Section 21C of the General Laws, and subject to the limit imposed by Chapter 59, Section 21C of the General Laws with respect to that portion of the principal and interest payments that the Town has not voted to exempt from that limit.

2. Interest on the Bonds is excluded from the gross income of the owners of the Bonds for federal income tax purposes. In addition, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. However, such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. In rendering the opinions set forth in this paragraph, we have assumed compliance by the Town with all requirements of the Internal Revenue Code of 1986 that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, and continue to be, excluded from gross income for federal income tax purposes. The Town has covenanted to comply with all such requirements. Failure by the Town to comply with certain of such requirements may cause interest on the Bonds to become included in gross

income for federal income tax purposes retroactive to the date of issuance of the Bonds. We express no opinion regarding any other federal tax consequences arising with respect to the Bonds.

3. Interest on the Bonds is exempt from Massachusetts personal income taxes and the Bonds are exempt from Massachusetts personal property taxes. We express no opinion regarding any other Massachusetts tax consequences arising with respect to the Bonds or any tax consequences arising with respect to the Bonds under the laws of any state other than Massachusetts.

This opinion is expressed as of the date hereof, and we neither assume nor undertake any obligation to update, revise, supplement or restate this opinion to reflect any action taken or omitted, or any facts or circumstances or changes in law or in the interpretation thereof, that may hereafter arise or occur, or for any other reason.

The rights of the holders of the Bonds and the enforceability of the Bonds may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable, and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

EDWARDS WILDMAN PALMER LLP

AM 28971657.1

**PROPOSED FORM OF
CONTINUING DISCLOSURE CERTIFICATE**

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the Town of Andover, Massachusetts (the “Issuer”) in connection with the issuance of its \$27,791,000 General Obligation Municipal Purpose Loan of 2014 Bonds dated as of the date hereof (the “Bonds”). The Issuer covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Issuer for the benefit of the Owners of the Bonds and in order to assist the Participating Underwriters in complying with the Rule.

SECTION 2. Definitions. For purposes of this Disclosure Certificate the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“Listed Events” shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

“MSRB” shall mean the Municipal Securities Rulemaking Board as established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, or any successor thereto or to the functions of the MSRB contemplated by this Disclosure Certificate. Filing information relating to the MSRB is set forth in Exhibit A attached hereto.

“Owners of the Bonds” shall mean the registered owners, including beneficial owners, of the Bonds.

“Participating Underwriter” shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Rule” shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

SECTION 3. Provision of Annual Reports.

(a) The Issuer shall, not later than 270 days after the end of each fiscal year, provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the Issuer may be submitted when available separately from the balance of the Annual Report.

(b) If the Issuer is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the Issuer shall send a notice to the MSRB, in substantially the form attached as Exhibit B.

SECTION 4. Content of Annual Reports. The Issuer's Annual Report shall contain or incorporate by reference the following:

(a) quantitative information for the preceding fiscal year of the type presented in the Issuer's Official Statement dated February ____, 2014 relating to the Bonds regarding (i) the revenues and expenditures of the Issuer relating to its operating budget, (ii) capital expenditures, (iii) fund balances, (iv) property tax information, (v) outstanding indebtedness and overlapping debt of the Issuer, (vi) pension obligations of the Issuer, and (vii) other post-employment benefits liability of the Issuer, and

(b) the most recently available audited financial statements of the Issuer, prepared in accordance with generally accepted accounting principles, with certain exceptions permitted by the Massachusetts Uniform Municipal Accounting System promulgated by the Department of Revenue of the Commonwealth. If audited financial statements for the preceding fiscal year are not available when the Annual Report is submitted, the Annual Report will include unaudited financial statements for the preceding fiscal year and audited financial statements for such fiscal year shall be submitted when available.

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues of the Issuer or related public entities, which (i) are available to the public on the MSRB internet website or (ii) have been filed with the Securities and Exchange Commission. The Issuer shall clearly identify each such other document so incorporated by reference.

SECTION 5. Reporting of Significant Events.

(a) The Issuer shall give notice, in accordance with the provisions of this Section 5, of the occurrence of any of the following events with respect to the Bonds:

1. Principal and interest payment delinquencies.
2. Non-payment related defaults, if material.
3. Unscheduled draws on debt service reserves reflecting financial difficulties.
4. Unscheduled draws on credit enhancements reflecting financial difficulties.
5. Substitution of credit or liquidity providers, or their failure to perform.
6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds.

7. Modifications to rights of the Owners of the Bonds, if material.
 8. Bond calls, if material, and tender offers.
 9. Defeasances.
 10. Release, substitution or sale of property securing repayment of the Bonds, if material.
 11. Rating changes.
 12. Bankruptcy, insolvency, receivership or similar event of the Issuer.*
 13. The consummation of a merger, consolidation, or acquisition involving the Issuer or the sale of all or substantially all of the assets of the Issuer, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.
 14. Appointment of a successor or additional trustee or the change of name of a trustee, if material.
- (b) Upon the occurrence of a Listed Event, the Issuer shall, in a timely manner not in excess of ten (10) business days after the occurrence of the event, file a notice of such occurrence with the MSRB.

SECTION 6. Transmission of Information and Notices. Unless otherwise required by law, all notices, documents and information provided to the MSRB shall be provided in electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

SECTION 7. Termination of Reporting Obligation. The Issuer's obligations under this Disclosure Certificate shall terminate upon the legal defeasance in accordance with the terms of the Bonds, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Issuer shall give notice of such termination in the same manner as for a Listed Event under Section 5(b).

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Issuer may amend this Disclosure Certificate and any provision of this

* As noted in the Rule, this event is considered to occur when any of the following occur: (i) the appointment of a receiver, fiscal agent or similar officer for the Issuer in a proceeding under the U.S. Bankruptcy Code or in any proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Issuer, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or (ii) the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Issuer.

Disclosure Certificate may be waived if such amendment or waiver is permitted by the Rule, as evidenced by an opinion of counsel expert in federal securities law (which may include bond counsel to the Issuer), to the effect that such amendment or waiver would not cause the Disclosure Certificate to violate the Rule. The first Annual Report filed after enactment of any amendment to or waiver of this Disclosure Certificate shall explain, in narrative form, the reasons for the amendment or waiver and the impact of the change in the type of information being provided in the Annual Report.

If the amendment provides for a change in the accounting principles to be followed in preparing financial statements, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information in order to provide information to investors to enable them to evaluate the ability of the Issuer to meet its obligations. To the extent reasonably feasible, the comparison shall also be quantitative. A notice of the change in the accounting principles shall be sent to the MSRB.

SECTION 9. Default. In the event of a failure of the Issuer to comply with any provision of this Disclosure Certificate any Owner of the Bonds may seek a court order for specific performance by the Issuer of its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not constitute a default with respect to the Bonds, and the sole remedy under this Disclosure Certificate in the event of any failure of the Issuer to comply with this Disclosure Certificate shall be an action for specific performance of the Issuer's obligations hereunder and not for money damages in any amount.

SECTION 10. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Owners of the Bonds from time to time, and shall create no rights in any other person or entity.

Date: March ____, 2014

TOWN OF ANDOVER,
MASSACHUSETTS

By _____
Treasurer

Selectmen

[EXHIBIT A: Filing Information for the MSRB]
[EXHIBIT B: Form of Notice of Failure to File Annual Report]

AM 28971476.1